

Nation's Business

A USEFUL LOOK AHEAD

FEBRUARY 1959

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~~CHICAGO~~

47/2



HERE
COMES

UNION DRIVE ON OFFICE WORKERS

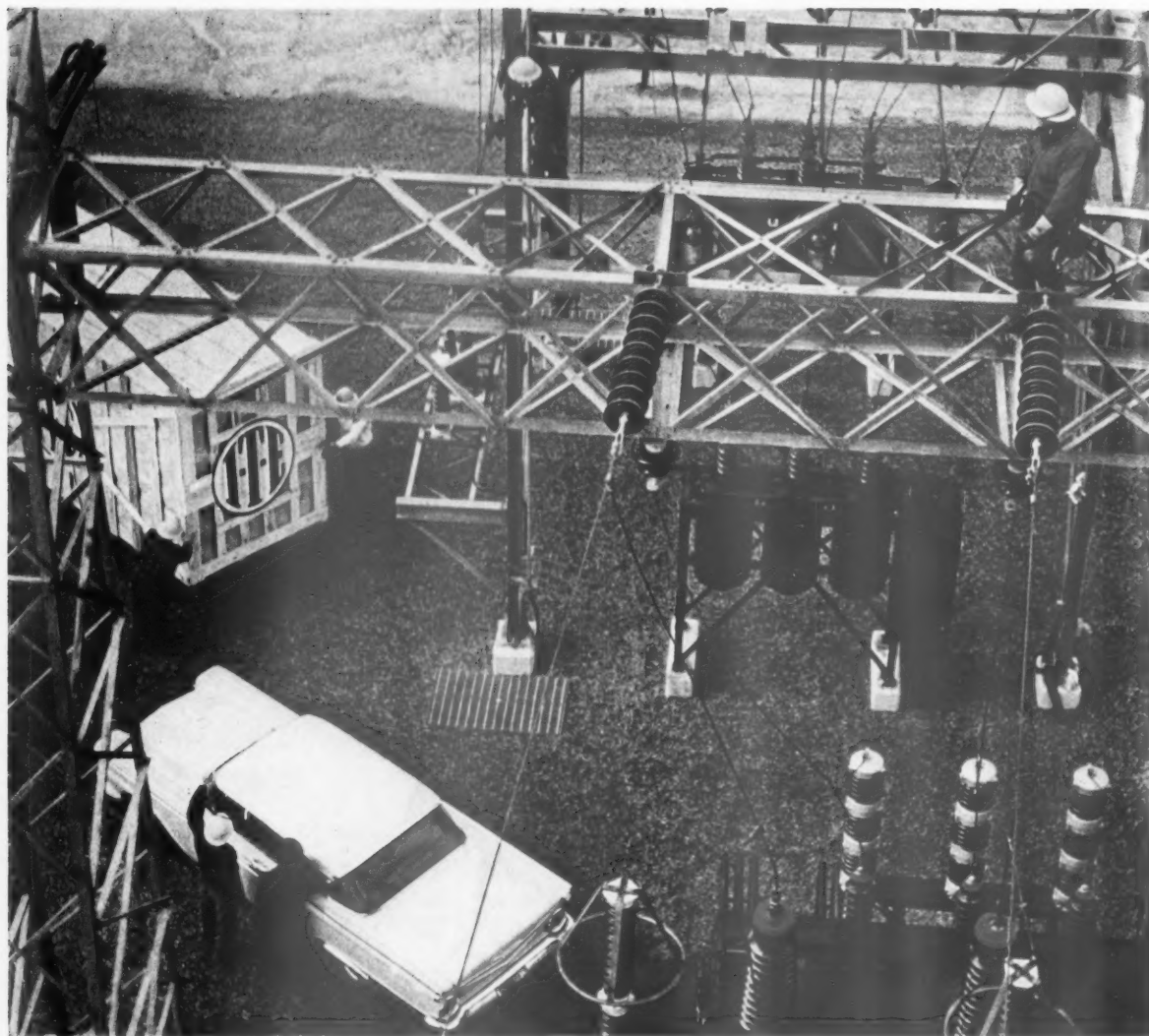
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Outlook for money market **PAGE 36**

Congress ready to feed inflation **PAGE 33**

Eight keys to creativity **PAGE 58**

You can skip the next downturn **PAGE 40**



FIND THE MAN FROM PHILADELPHIA! This modern Penelec sub-station is 500 miles from his home office. He got here in less than 4 hours. He came by plane and he's standing beside the gleaming Avis Ford* he drove from the airport. There was no wasted time! The trip couldn't have been quicker . . . or more convenient for him!

It couldn't have been more efficient for his firm. I-T-E Circuit Breaker Company was one of the *first* to use the new Avis Corporate Travel Plan. New print-o-matic credit cards save red tape and paper work (no cash needed!). They assure easy accounting control of all car-rental charges. Says the I-T-E Comptroller: "We travel

hundreds of men out of 12 different Divisions. Instead of a bale of rent-a-car bills and vouchers—each accounting office gets only *ONE* monthly invoice. It identifies and allocates each charge. The Avis Corporate Travel Plan is the greatest time- and money-saver that ever happened in the car-rental business!"

“Write for “20 Modern Ways to Solve the Problems of Business Travel.” No obligation. Address AVIS, (Dept. 28) 18 Irvington St., Boston 16, Mass.”

The new Corporate Travel Plan is another first from Avis

*Choose from all makes of fine cars
—featuring 1959 Fords!

Go places with **AVIS** RENT-A-CAR



Copy, 1959, Avis Inc.



Would you "hobble" your sales force this way?

Of course you wouldn't.

You want your salesmen to keep in close touch with customers and follow up sales leads quickly.

Long Distance telephone calls really help your salesmen.

Used as a regular supplement to field visits, they help salesmen cover more ground, give better service, and get more business.

Encourage *regular* use of Long Distance calls in your sales operations. They bring in more than they cost.

"A \$1 or \$2 telephone call is frequently the means of closing a sale for corn or soybean products worth half a million dollars or more," says E. K. Scheiter, president of the A. E. Staley Manufacturing Company, Decatur, Ill.

BELL TELEPHONE SYSTEM

Long Distance pays off! Use it now... for all it's worth!



Nation's Business

February 1959 Vol. 47 No. 2

Published by the Chamber of Commerce of the United States
Washington, D.C.

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**NOTES
TO
THE
EDITOR**

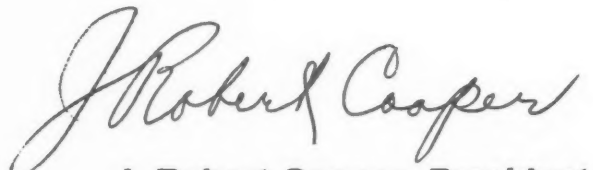
IN THEIR OWN TRUE INTEREST . . .

Shouldn't every group in the transportation industry pursue policies like these in 1959?

- **Make no effort to soak a competing form of transportation with more taxes in the hope of securing a competitive advantage. The shipper pays such taxes on behalf of the ultimate consumer.**
- **Attempt to better its business and relative position in transport by striving energetically to improve its service to shippers and receivers.**
- **Work more closely with other forms of transport in the interest of the shipper and of the country as a whole.**

AND WOULDN'T SUCH POLICIES BE GREATLY IN THE PUBLIC INTEREST?

As President of ATA, I can say with complete confidence that we will be found adhering to these policies. They are in line with our basic principles and our historical position.



J. Robert Cooper, President

AMERICAN TRUCKING ASSOCIATIONS, INC.

WASHINGTON 6, D. C.

Thousands of top management men have sent for these

FREE BOOKLETS

*"An Answer to Worker Tension"
and
"How Muzak Affects Profits"*



MUZAK CORPORATION'S TWO INFORMATIVE BOOK-
LETS have been the starting point for worth-
while payroll savings for many types of factories,
plants, offices, and banks. Offered singly, they have
been requested by thousands of top management men.
Now your request will be promptly filled for compli-
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1. — "AN ANSWER TO WORKER TENSION"

"The tense, emotionally-upset 25% of the industrial
labor force," estimates *Newsweek*, editorially, "costs
industry 3 billion dollars each year."

"*An Answer to Worker Tension*" is a scientific re-
port on this management problem. It details how
MUZAK relieves tension, lessens fatigue, reduces mis-
takes, cuts down idle talk, and eases friction. It charts
the effects of MUZAK in reducing errors of verifi-
cation 40.2% at one of the world's largest insurance
companies; describes the four unique features that en-
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fails; shows how MUZAK creates and transmits its in-
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How much can MUZAK save your company? An
answer is suggested in the booklet, "*How MUZAK
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case-history studies included in it are (to the best of our
knowledge) the first statistically reliable management
engineering studies that measure actual savings re-
sulting from environmental changes in work areas.

For example, Case-History No. 1 describes the
MUZAK test study made at Prentice-Hall, Inc., Pub-
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in just one department — after the modest cost of the
MUZAK service was deducted. Case-History No. 2 tells
how typing errors were reduced 38.6% at Lever Brothers
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in employee turnover as one of a number of MUZAK
benefits during a nine-month test at Eastern Air Lines.

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There isn't room here to cover the wide range of
cost-cutting benefits available through MUZAK, the
diversity of management problems it can solve, or the
highly advanced techniques used in making the case-
history studies. These facts are certain to interest any-
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Please send me, without obligation, your booklets — "*An
Answer to Worker Tension*" and "*How MUZAK Affects Profits*."

We are especially interested in:

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| <input type="checkbox"/> Reducing Absenteeism and Labor Turnover | <input type="checkbox"/> Increasing Productivity Per Worker |
| <input type="checkbox"/> Lessening Friction Among Employees | <input type="checkbox"/> Reducing Errors |

NAME POSITION

TYPE OF BUSINESS NO. OF EMPLOYEES

COMPANY STREET

CITY ZONE STATE

☐ CHECK HERE IF YOU ARE INTERESTED IN A MUZAK TRIAL TEST.

Progress Is Our Most Important Product

GENERAL  ELECTRIC



DECISION

"Alone . . . just me and my question . . . which lamps to buy. All look about alike . . . but I keep remembering what past experience has proved to us about General Electric Lamps. That 999 out of 1,000 are sure-starters . . . and 99 out of 100 will still be burning in 1961. And happy thought! We pay less for a case of G-E Fluorescent Lamps today than we did in 1950!"

DECISION: "Why gamble on performance when I can get G-E Lamps at little or no premium in the purchase price."

General Electric Co., Large Lamp Dept. C-905, Nela Park, Cleveland 12, O.

management's WASHINGTON LETTER

► **STRIKES AND WAGES**--both will likely increase this year.

Major strike threats loom in these industries:

Rubber--April.

West Coast docks--June.

Basic steel--July.

Meat packing--September.

Railroads--November.

Last year's 3,400 strikes were fewest since '42--despite headline-making airline stoppages, other strikes.

The 23.5 million man-days lost by strike idleness, however, were almost 50 per cent above 1957.

Wages will rise in '59 because:

Almost 3 million workers are assured an increase in autos, trucking, other industries with long-term labor agreements providing for deferred increases.

Probable rise:

About 10 cents an hour average.

New fringe demand:

California food clerks want employer-paid mental care for clerks who crack up under job pressure.

► **SPONGY PROSPERITY AHEAD** is seen by some economists.

Meaning is this:

Economic growth now under way has some soft spots. Specialists wonder if growth can be sustained.

They express cautious optimism.

Sample comment:

"Chances are good that business activity will be at somewhat higher rate but there will be no great business expansion this year."

Danger spots to watch:

Creeping inflation--More of it ahead, following current lull.

Wage-cost spiral--Business costs may streak up in '60, following prospect of substantial rise this year.

Federal deficit--Promise of a balanced budget next year doesn't change the inflationary impact of big deficit this year.

Nor does the promise of a balance mean balance will be realized. Few specialists really think it will be.

Taxes--Higher spending rate for years ahead makes reduction of taxes in foreseeable future unlikely. Some taxes will be raised.

Employment--Jobless total is higher

than average for recent years.

Conclusion:

Underlying forces for long-range sound growth are strong--but don't expect growth without problems.

► **MEASURING YOUR BUSINESS** prospects for coming months, don't overlook what your government thinks you can do.

Fact is:

Government is counting heavily on your ability to boost profits.

Without big profit boost, budget won't balance.

Moreover, Administration thinks you can produce one of the biggest profit rises many of you have ever seen in such a short period.

► **BUSINESS VOLUME WILL EXPAND.**

That's assured.

But remember:

Business pays taxes on profits--not volume.

And profits might fall short of government expectations.

Here's how future looks now:

To balance the '60 budget at \$77 billion (figure selected arbitrarily by Administration because that's official estimate of revenue) will require revenue step-up of about \$9 billion from fiscal '59 level.

More than \$5 billion of that will come from expected higher corporate profits.

That means profits during '59 will have to climb--average more than 30 per cent higher than last year's profits.

To reach that average means:

Annual rate would have to zoom--increase from last year's \$31.7 billion low point to neighborhood of \$48 billion by late '59.

Will that happen?

Maybe.

Maybe not.

Do you expect your company's profits to average 30 per cent higher?

► **TAXES ON GASOLINE** point upward--state as well as federal.

Here's a useful look ahead at probable actions:

Federal government needs revenue to balance accelerated highway spending.

Other alternatives:

Reduce expenditures to balance income,

or continue to pump general tax revenue into roads program.

Uncle Sam now collects 3 cents per gallon.

An extra penny would bring in about \$700 million more.

But it would take 1½-cent increase to balance highway trust fund income-outgo at present spending rate.

Administration wants the 1½ cents.

Informed guess is that it will be approved, though not right away.

Meanwhile, many state increases will come first.

Legislatures of 45 states are meeting this year--with search for more revenue high on their legislative calendars.

Taxes on gasoline now account for 20 cents of each tax dollar states collect.

That's second largest item in state tax collections, rivaling general sales tax, which accounts for 25 cents.

State income taxes are next with 17 cents.

Property taxes--standby of yesteryear--now bring in only 3½ cents per state tax dollar collected.

Here's state situation on gasoline:

20 states collect 6 cents per gallon.

10 states collect 5 cents, another 10 collect 7 cents per gallon.

Average for all states is 5.94 cents.

14 states have raised gasoline taxes in 3 years.

Outlook:

Many states will add penny per gallon tax. Some may vote a 3-cent rise.

►SOVIET SPACE FEATS rekindle demands for more federal spending.

Action and reaction in this field will be feverish for some time to come.

Here's why:

Russian breakthroughs, as they happen, will seem to put Moscow far ahead of us.

This will spur new spending demands.

But U. S. will do something spectacular in space and pressure will ease off.

Best informed Washington sources see this seesaw continuing for years.

Says one observer:

"I hope the Soviet Lunik and Sputnik won't give us a Sputnik Congress."

►CONGRESSIONAL CALENDAR is studded with proposals which would transfer local

and state power to Washington. Such proposals dismay many lawmakers who believe nation's strength depends on holding federal intervention in local affairs to a minimum.

Here's a scorecard to help you follow the fight ahead:

Depressed areas--Strongest drive ever will be made to obtain passage of multimillion dollar federal subsidies.

(Background details on this issue important to business on page 42.)

City growth--There'll be strong pressure for extension of federal housing, slum clearance, urban renewal.

Education--Some congressmen will use new Soviet space exploits as argument for crash program of tax-financed aid to local school systems for construction and salaries.

Unemployment pay--Unions want federal standards for higher benefits, will press hard for federal workmen's compensation law.

Compulsory unionism--Move to amend Taft-Hartley law is key union target. This would override the state right-to-work laws.

►FEW CONGRESSES have faced so many demands for welfare-state legislation.

Who's putting on pressure?

Much of it arises from AFL-CIO and international union lobbyists.

In all, nearly 60 labor organizations have lobbyists at work this session.

Says AFL-CIO spokesman:

"We're going all-out despite fact that there are so many congressmen in town who are friendly to us."

Why all-out?

Because union leaders see "tantalizing prospect" of hammering through legislative objectives at a time when Congress is loaded with liberals.

Point is that unions don't let up after elections--even when many candidates friendly to them have been elected.

Key targets this year:

Socialized medicine--Changing Social Security law to include hospital care, nursing home, surgical benefits.

Minimum wage--Extension of law to cover 10 million more employees plus 25 per cent boost in hourly pay.

Fringe benefits--Broader benefits for federal employees, recognition of

management's WASHINGTON LETTER

federal employe union organizations.

Public power--Self-financing for TVA, extension of federal development of atomic power for peaceful uses.

Industrial redevelopment--Spending tax money by Washington as solution for local employment problems.

►TIED TO UNION DRIVE for more liberal legislation is effort to build grass-roots support for union movement.

Example:

Have you heard "Washington Reports to the People"?

That's a 15-minute weekly radio show tape-recorded in Washington, distributed free to radio stations.

Show started last year, was given free time by 167 stations.

Now more than 200 are broadcasting it.

Program is designed for public service time use, will cost AFL-CIO about \$15,000 to produce during this session of Congress.

Featuring interviews with congressmen, program promotes free-spending ideas.

Union expects to get a big return on its \$15,000 investment.

Here's why:

"We frankly believe," AFL-CIO spokesman tells NATION'S BUSINESS, "that this kind of project will improve our 'corporate image,' tend to make people think of us as a public service organization instead of an outfit always involved in strikes, violence, and racketeering."

Freely admitted is AFL-CIO theory that the more people it alerts to national issues the more voters there will be.

And more voters, in AFL-CIO lexicon, means more "liberal voters," more people who will support the kind of programs it advocates. (See page 66.)

►HERE ARE FOG-CLEARING FACTS about the employment outlook:

Employment, unlike other indicators, is not zooming back from recession.

Economists call this "returning to the trend line."

What does it mean?

Experts on labor force say it reflects fact that many employers who cut their forces during downswing haven't rehired.

Important factor: Higher wage costs.

Factory work, for example, is paying about 10 cents an hour more than

a year ago. Many employers are getting more from their employees and using more of them full time.

Only more efficient workers are being used. Less skilled--who are employed in boom times--aren't needed now, won't be until next boom is well under way.

Outlook:

Unemployment will shrink gradually.

►LABOR CORRUPTION threatens AFL-CIO unity.

Leadership is split on continuing Senate investigations of union racketeering.

Pres. George Meany sides with leaders of former CIO unions against AFL unionists who are being hurt most by Senate probe.

AFL leaders want inquiry stopped.

Here's rundown on organization's internal shake-up stemming from corruption disclosures:

Expelled--teamsters, bakery workers, laundry workers.

Being cleaned up--distillery workers, textile workers, jewelry workers, operating engineers.

Cleaned up--allied industrial workers.

Under investigation--carpenters.

New unions chartered--bakery workers, laundry workers.

►AMERICAN BUSINESSMEN overseas can help to counter Soviet propaganda push in foreign lands.

That's consensus of more than 400 executives of U. S. firms operating in 63 foreign countries.

Their views are contained in new survey by U. S. Chamber of Commerce.

Majority feel:

U. S. Information Service is doing good job--but better job needs to be done, could be done.

Suggested improvements:

1. More fully utilize skills and knowledge of U. S. businessmen located abroad.

2. Establish more support, incentives for personnel in USIS programs.

Note: Congress will be asked this session to set up career service for international information specialists.

Propaganda is costing U. S. taxpayers \$107 million in fiscal '59.

Estimated for '60: \$114 million.

SUSIE THE SECRETARY SAYS:

**"You, too
can have a
coffee-break
fast and tasty"**



"Yes, I mean you. Just you take a look at these four big advantages with a Kelvinator Hot 'n Cold water cooler.

1. Piping hot water for instant beverages and refreshing cold water, too.
2. You stop all the going out, sending out, and coffee-making mess.
3. Coffee-break time cut 50% and more.
4. Employees and customers are delighted with the service.

And now, just listen to these happy folks:"



**"This New York manufacturer
likes the GOOD WILL"**

"We like the improved employer-employee relationship with our Kelvinator Hot 'n Cold. Coffee-breaks are no longer a ritual. We used to send out for it and it took too long. Now there is little time lost. We think the Hot 'n Cold paid for itself immediately."

**"And this Beauty Parlor
owner in Miami Beach
says it HELPS BUSINESS"**



"With the Kelvinator Hot 'n Cold, we get coffee-breaks in less than half the time. Then, it establishes a friendly attitude which customers like and is bound to help us businesswise. It affords excellent good will relations between management, employees, and customers."



**"So, you clip that
coupon and send
it RIGHT NOW."**

Get the latest facts on coffee-break costs in Free Booklet, "How to cut coffee-break time in half." Send the coupon for Free Booklet and details of Free Beverage Offer.

Kelvinator Hot 'n Cold with refrigerated compartment.

Kelvinator

HOT 'N COLD

and Standard Water Coolers

Sold coast to coast—rented in many cities
Distributed in Canada by Kelvinator of Canada, Ltd.

KELVINATOR WATER COOLERS

Dept. 60, Columbus 13, Ohio

Rush my FREE Beverage Certificate and the FREE Book, "How to cut coffee-break time in half."

name _____
title _____ company _____
address _____
city & state _____

10

Letters from businessmen

Political suggestion

I note in "Washington Mood," January issue, a new name is being sought for the Eighty-sixth Congress.

Inasmuch as Walter Reuther wrote from Russia in 1934 that his one ambition was to see the same wonderful working conditions in America, as enjoyed by the Russian people, and inasmuch as few of those opposing Walter Reuther made the grade in the November elections, I think one might just label the Eighty-sixth Congress what it is—a Labor Government.

However, the left-wing Democrats and Republicans, likewise, might well be called the "Commucratic Party," and this title may well fit the Eighty-sixth Congress.

Anyone who is hell bent on turning over the control of our educational system and control of our industry to a bureaucratic government in Washington, must believe that the communists have something that we do not have.

KENNETH R. GRIGSBY, M.D.
Coffeyville, Kans.

Easy target

I can't help but echo "Amen" to A. N. Clifton's comment in his letter appearing in your January issue.

The comment—"We've dwelt too long on the average American."

Puts me in mind of a pithy observation by Gary Gariepy, sales counselor and director of Sales Training International. Said he:

"If your aim is to be an average man; if your goal is average results, you have a choice of two descriptions to apply to yourself. Either you are, 1, the best of the lousiest or 2, the lousiest of the best."

RALPH B. NELSON
President
Erving's Hatcheries
Winlock, Wash.

Useful

I would like to reprint the article "Tax Dollars Hire 1 in 8," December, 1958, in the NSP News, the

monthly magazine for employees of Northern States Power Company, headquarters in Minneapolis, Minn.

E. L. FELTON
Northern States Power Co.
Minneapolis, Minn.

We enjoyed "You Can Tell Who Wants Success," in the December issue.

May we reprint this article in the *Executive Review*, distributed by several Chicago firms to their customers and prospects?

HAROLD SABES
Executive Review
Chicago, Ill.

►Both granted.

No use

Please cancel my subscription to NATION'S BUSINESS.

The magazine is of no use to me whatsoever and I violently disagree with its viewpoint.

RUSSELL S. CORKUM
Weymouth, Mass.

►Cancelled.

Other editors note, too

Have enjoyed and, I might add, gotten a world of good from NATION'S BUSINESS over a period of years, but honestly wonder if your company is like so many of us and has to have someone else point out their weak points.

Three things could be done (with yours and most other magazines) that would make reading more enjoyable.

First—make page numbers just a little larger and less hard to find (I read and enjoy the ads as well as the rest of the magazine).

Second—make a book that is fastened together so that it will open properly—instead of two staples wrinkling every page.

Third and easiest—if you insist on using the "continued" method, let's put the page that it was continued from at the end of the article—not on the first continued page—so that I can go back to where I left off more easily.

ROBERT C. JAMES
Pinder & Dodd
Islamorada, Fla.

►Will take up at next staff meeting.



Photographed by Robert Yarnall Richie

Shipping gets a new lift

This custom-built bridge is one of three in a modern Railway Express terminal. When elevated, it forms a timesaving link between platforms; when lowered, it permits rail cars to move into the depot for efficient loading and unloading. It's equipment like this that puts Railway Express far ahead of any other carrier . . . just part of the multimillion-dollar modernization program designed to give you faster, more complete service.

Your shipment moves swiftly to almost anywhere in the world—with unified *one-carrier* responsibility all the way. You get door-to-door delivery at no extra charge (within REA delivery limits in the U.S.). Check the special low rates on many commodities. Next time *you* want safe, swift, sure shipping—call Railway Express.

shipping goes MODERN
with



"It takes an economical truck to deliver a Good Humor Bar at a profit!"

*says E. J. Otken, V. P.
The Good Humor Corp.*

"Good Humor trucks stop 400 times a day! They carry almost 3 tons of equipment and payload. They must be thrifty in driving and idling to show a profit for each stop. And they must be reliable—a breakdown means lost sales.

THAT'S WHY 90% OF OUR FLEET IS FORD!

"Good Humor's success was built on bringing top-quality ice cream products to the consumer. We go where he is and stop when we find him—some 400 stops a day, many for no more than a 10¢ sale.

"Our 2000 trucks are our showrooms. Their purchase, maintenance and operating costs are the biggest items in our entire sales budget. So we keep detailed records on each truck.

"We know our gas mileage to the last drop in the tank, for example. What would you say would be good gas mileage for a truck that averages 400 stops a day? Five miles per gallon? Six? Our Fords give us 8!

"We know what stop-go work can do to brakes, clutches and transmissions . . . and the records prove our Fords can really take it. Each year half of our

drivers are inexperienced, yet our Ford maintenance costs continue to drop.

"In this sort of work, eight years and 80,000 miles is a long life for a truck . . . but we have many eleven-year-old Fords still going strong!

"We are continually testing new models. In the last eight years, we have added over 1000 new Fords. When we say, 'Let's look at the record,' we buy Ford, 9 to 1."

. . .

Good Humor's satisfying experience with Ford Trucks is shared by hundreds of fleets. No matter what job you have for a truck, there's a Ford to handle it. Ford makes over 370 models, all built to cost you less to own, to run and to last longer, too. See your Ford dealer.





Here's the workhorse of the Good Humor fleet. It's the sturdy F-250, with 118-in. wheelbase, gas-saving Short Stroke Six engine and Ford-O-Matic Drive. After two years of on-job testing, Good Humor specified Ford-O-Matic in all their new Ford Trucks. Drivers like it and Good Humor reports their Ford-

O-Matic-equipped trucks deliver better mileage. Ford supplies the F-250 chassis-cowl model for Good Humor's own specially designed 2515-lb. refrigerator body. Heavy-duty components such as springs, radiator, fan and battery are the only special equipment needed to give this unit its fine on-the-job record.

GO FORD-WARD FOR SAVINGS WITH '59 FORD TRUCKS!
FORD TRUCKS COST LESS

LESS TO OWN... LESS TO RUN... LAST LONGER, TOO!

HOW WALL STREET JOURNAL READERS GET AHEAD

By a Subscriber

"One day I picked up The Wall Street Journal in a railroad club car. I expected dull reading. Imagine my surprise when I found some of the brightest, most interesting articles I ever read.

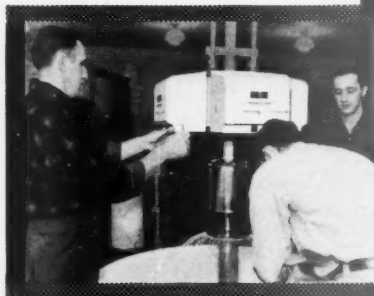
"I sent for a Trial Subscription. For the first time in my life I began to understand why some men get ahead while others stay behind. I learned about the far-reaching changes taking place in America. I found out about new inventions, new industries and new ways of doing business that are helping ambitious men earn money. My Trial Subscription to The Journal cost me \$7. It showed me how to increase my income."

This story is typical. The Journal is a wonderful aid to men making \$7,500 to \$25,000 a year. To assure speedy delivery to you anywhere in the U. S., The Journal is printed daily in five cities—New York, Washington, Chicago, Dallas and San Francisco.

The Wall Street Journal has the largest staff of writers on business and finance. It costs \$24 a year, but in order to acquaint you with The Journal, we make this offer: You can get a Trial Subscription for 3 months for \$7. Just send this ad with check for \$7. Or tell us to bill you. Address: The Wall Street Journal, 44 Broad St., New York 4, N. Y. NB-2

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A North Carolina manufacturer paid \$480 for cloth towel service in 1955. Then he switched to pure sulphate Turn-Towels and the controlled Turn-Towel cabinet.

Costs dropped to \$212 in 1956 ... to \$195.65 in 1957!

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PROGRESS:

Better planning data coming

VALUABLE NEW DATA for analyzing business trends and forecasting economic conditions will be available this summer when the Federal Reserve Board begins quarterly publication of its new flow-of-funds statistics.

Climaxing a decade of intensive research, these new statistical series should equal or exceed in value the widely used gross national product and national income accounts.

How does this flow-of-funds system differ from the gross national product accounts?

Gross national product is limited to transactions involved in current production of goods and services, and does not include transactions in such assets as land, existing homes, used automobiles, mortgages and securities. The entire productive system, in gross national product accounts, is treated as a single giant firm, controlling all the capital equipment, and employing all the labor. Gross national product gives a measure of how well our economy is working.

In contrast, by tracing financial flows, the flow-of-funds system helps us understand how our economy works. It helps us find out where the money which is used to buy the gross national product comes from, which groups make transfer payments, and which groups advance money to finance other groups. It will help us determine the part cash balances play when business ex-

pands and contracts, the part credit plays, and something about the role of the banking and monetary system. We may later be able to trace the impact of government fiscal policy upon business and households, the impact of business policy upon households and government and the impact of household finances upon business and government.

The flow-of-funds data form a comprehensive record of the flow of money, credit and investment through our domestic economy, and will provide valuable new insight into the functioning of our economic system, particularly how financial transactions influence the markets for goods and services.

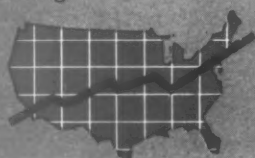
The system includes a series of interlocking balance-of-payments statements for various sectors of the economy, showing in detail the purchases and sales of commodities and services, the credit and capital outflows and inflows, and changes in monetary balances.

Each transaction recorded is shown by at least four accounting entries for the participating sectors. For example, the purchase of goods for cash is entered as a purchase of goods by the buyer, a sale of goods by the seller, a reduction in cash for the buyer, and an increase in cash for the seller.

Transactions involving part cash and part credit payments involve more than four entries.

The entire economy is divided

GNP (Gross National Product)
treats nation as single giant firm,
indicates how well economy
is working



FLOW OF FUNDS
system helps understanding of
how our economy works





America's electric power program surges ahead on rails of steel

Another example of how railroad progress goes hand in hand with U. S. progress

The growing demand for electricity — electric power for homes, industry, national defense — requires vast new power projects in every section of the country.

And essential to the building of these tremendous installations are America's progressive railroads. They haul everything from heavy construction materials, huge generators and transformers to the most delicate wiring, switches and tubes. They move millions of tons of coal to generating stations. No other form of transportation can carry such massive amounts of material with the efficiency and economy of the railroads.

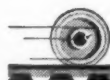
In fact, the railroads are absolutely essential to our economic growth and national defense. The country couldn't do without them. That's why the railroads should be allowed equality of treatment and opportunity with their competitors.



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Association of American Railroads, Washington, D. C.



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COMPANY _____

ADDRESS _____

CITY _____ ZONE _____ STATE _____

FINANCING ARRANGEMENTS AVAILABLE

BETTER PLANNING *continued*

into 12 sectors, according to similarity of function and institutional structure.

Probably of major importance in economic analysis is the consumer sector, which comprises persons in their capacity as members of households, plus the activities of personal trusts and of welfare funds.

Business is represented by three sectors, corporate business, unincorporated business and farms.

Government is represented by two sectors, the federal government, and state and local government.

Financial institutions are divided into four sectors, commercial banking, savings institutions, insurance and the other investors sector. The latter includes security and commodity exchange brokers and dealers, finance companies, open-end investment companies and agencies of foreign banks in the United States.

The nonprofit organizations sector includes private schools and hospitals, charitable, welfare and religious organizations and foundations.

The twelfth sector is the rest of the world, which includes residents and governments of countries outside the United States, international organizations and employees of these organizations who are not citizens of the United States.

There is also a classification system for the various types of transactions involving sources and uses of funds. Nonfinancial transactions include payroll, interest, rents and royalties, dividends and branch profits, income withdrawals by proprietors, insurance and grants, taxes and tax refunds, capital acquisitions and other purchases and sales.

Financial transactions are of three major types: 1, credit and equity market instruments, which include federal obligations, state and local obligations, corporate bonds and stocks, mortgages, consumer credit, security credit, other loans, trade credit, proprietors' net investment in unincorporated business, and miscellaneous financial transactions; 2, fixed value redeemable claims, which include savings deposits, shares in credit unions and savings and loan associations, life insurance savings of policyholders, and miscellaneous deposits; and 3, cash balances, which include currency and demand deposits, and gold and Treasury cash.

The flow-of-funds data can be analyzed in several ways.

Comparison of data for one sec-
(continued on page 23)

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Echlin Manufacturing Co., Branford, Connecticut



West Virginia University, Temporary Engineering Building



M. M. Kinley Co., Houston, Texas

METAL PERFORMS MIRACLES *in this modern construction*

The buildings above, aren't ordinary metal buildings. They were created with a system of building that combines today's most modern building practices with mass-production efficiencies—the Butler system of building.

Consequently, the Butler system of building offers advantages and economies other construction methods can't match.

For example: it enabled a university to quickly replace facilities destroyed by fire; provided an oil well fire-fighting organization with an attractive office and workshop; permitted a manufacturer to build larger, more efficient facilities. And, in each case, provided superior construction, even when budgets were limited.

Pre-engineered, precision-fabricated Butler components save weeks (even months) of planning and construction time—permit owners to get into production, start earning profits sooner.

The completed buildings have spacious interiors, excellent illumination and ventilation—a superior, more productive environment. They are economical to heat, can be expanded quickly, economically whenever required, and require less maintenance and upkeep.

For full details on Butler buildings, the modern, economical way to build well with metal, contact your Butler Builder. He's listed in the Yellow Pages of your Phone Book under "Buildings" or "Steel Buildings." Or write to us directly.



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Manufacturers of Metal Buildings • Equipment for Farming, Dry Cleaning, Oil Production and Transportation, Outdoor Advertising • Contract Manufacturing
Sales offices in Los Angeles and Richmond, Calif. • Houston, Tex. • Birmingham, Ala. • Kansas City, Mo. • Minneapolis, Minn. • Chicago, Ill. • Detroit, Mich. • Cleveland, Ohio
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BETTER PLANNING

continued

tor during several consecutive quarters often reveals significant trends. For example, during the fourth quarter of 1957, as the 1957-58 recession began, corporate business was decreasing its expenditures for plant, equipment and other fixed capital, extending less trade and consumer credit, and purchases of federal securities were low.

Assumption of liabilities by corporations was considerably less than normal for this quarter, reflected principally in a \$400 million reduction in trade credit at a time when this credit normally increases \$2 to \$4 billion. Construction loans and corporate borrowing from banks also decreased.

Another type of analysis is tracing individual transactions through various sectors of the economy. During the fourth quarter of 1957 the amount of federal obligations outstanding, other than savings bonds, increased by \$2.6 billion. Commercial banks increased their holdings by \$2 billion, corporations by \$1 billion, other financial institutions by \$400 million, and the rest of the world holdings increased by \$400 million. Consumers decreased their holdings of these obligations by \$600 million, state and local governments by \$100 million, savings institutions by \$200 million, and insurance companies by \$200 million.

Accompanying the balance of payments statements are annual estimates of financial assets and liabilities for various sectors of the economy. With the quarterly tabulations reporting net changes in the various transaction items for the various sectors, the asset and liability series gives perspective by showing total holdings outstanding. Financial asset holdings of all sectors totaled \$1,418 billion at the end of 1957.

Total liabilities were \$1,091 billion, somewhat less than total assets, due principally to the impossibility of putting a dollar figure on the corporations' liability for outstanding stock.

The consumer sector held \$625 billion in assets, or 44 per cent of the total, principally in corporate stocks, time deposits and life insurance savings. The commercial banking sector's assets totaled \$223 billion, principally in federal obligations and bank loans. The insurance industry had \$140 billion in financial assets, and corporate business \$126 billion.

END

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machine
that
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50% SIMPLER



the

Norelco '35'

featuring instantaneous, jam-proof

MAGAZINE LOADING



SIMPLER to dictate



SIMPLER to transcribe



SIMPLER to carry

With just five simple controls where comparable machines use as many as ten... with two-second magazine loading where others fumble with old-fashioned hand threading... with crystal-clear, easy-on-the-ear voice reproduction where others require nerve-racking concentration... the new NORELCO '35' makes it at least 50% simpler, easier and pleasanter to give and take office dictation. Engineered by Philips of the Netherlands, world's largest electronics concern outside the United States, the NORELCO '35' has already established its reputation as the most advanced moderately-priced dictating machine in the world.

Check these features against any other dictating/transcribing machine at any price!

- ✓ Magazine Loading — fumble-proof, jam-proof, takes 2 seconds
- ✓ Automatic Counter — extra accurate; can find and pinpoint a single word
- ✓ Extra-Long Dictating Capacity — 35 minutes on dual tracks of one reel
- ✓ Modern Decorator Styling — two-tone green trimmed with maroon; blends with any decor
- ✓ Easy Portability — only 8 lbs; fits anywhere, travels anywhere
- ✓ Only 5 Controls — for all functions: dictating, playback, fast-forward, fast-rewind, quick-review, quick-erase and stop.
- ✓ True-Fidelity Sound — prevents fatigue in transcribing; speeds typing

only \$179.50

complete with loaded magazine, log pad, and dust cover, plus choice of (A) microphone/speaker or (B) stethoscope headset with foot control or (C) stethoscope headset with typewriter control (latter at slight extra cost).

MAIL COUPON FOR FREE DEMONSTRATION! NO OBLIGATION!

NORTH AMERICAN PHILIPS CO., INC., Dictating Equipment Division
230 Duffy Avenue, Hicksville, Long Island, N. Y.

Gentlemen:

I am interested in finding out what the new magazine-loading NORELCO '35' dictating machine can do for me, at my office.

☐ Kindly send additional literature.

☐ Please arrange for a free demonstration, without obligation, on or about (Date)..... at

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NBS Attention of..... Title.....

In Canada, the Norelco '35' is known as the 'Philips' dictating machine and is distributed by Philips Industries Ltd., 116 Vanderhoof Avenue, Toronto, Ontario.





The case of the tell-tale icicle told by Bertha Lauer



Mrs. Louise Lauer
Lincoln, Illinois

"Mr. Lauer and I were visiting in St. Louis. A relative was keeping an eye on our home while we were gone.

"One frigid morning he noticed a large, weirdly-shaped icicle had formed over a downstairs window. He hurried inside to find the entire first floor flooded. A pipe upstairs had broken loose from the faucet. The burst pipe was sending a steady stream of water downstairs.

"An unusual accident. And our Hardware Mutuals man certainly gave us unusual

service. He arranged for immediate loss inspection. Our settlement checks, amounting to over \$1,700, were completely satisfactory. We were delighted!"

Dividend savings, too!

Countless families find that Hardware Mutuals thrifty one-policy Homeowners Insurance* gives them exactly the protection they need. Remember: every year Hardware Mutuals have returned dividend savings to policyholders. If skilled insurance counsel, fast claims action and savings sound interesting to you, we'd be happy to talk about *your* home.

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The state of the nation

This session tests Congress' belief in democracy

ITEMS NOT in the federal budget may have as much long-range significance as any of those included. Thus the omission of any generalized appropriation for public school construction is a sign that the Administration has heard the rumble at the grass roots against this particular form of centralized intervention. But as yet it is too early to indulge in cheers.

The education lobby in Washington is well entrenched, powerful and determined. It will not hesitate to depict the school situation inaccurately and to bring strong pressure on Congress to appropriate in this field in spite of the President's effort to economize. Unfortunately, Mr. Eisenhower would find it difficult to veto a federal aid measure drawn along the lines of that which he himself so mistakenly advocated only two years ago.

Moreover, grants-in-aid to all the states is only one of the channels through which the Washington bureaucracy is moving to nationalize education. A more subtle device is the plausible extension of federal assistance in areas affected by governmental installations, military or otherwise. Here it is proposed to continue grants for school construction as well as operation. As the size of these areas increases, and as the definition of governmental installations becomes more loose, the wedge of intervention by the Department of Health, Education and Welfare drives ever deeper into the American principle of local self-government.

• • •
Though sometimes said to have been "a mandate for the spenders" the November election was decidedly not that when specific cases were considered by the electorate. A nationwide total of 473 expenditure proposals, to be financed by state, county or municipal bond issues, was referred to the voters for localized decision. More than 40 per cent of these, 200 to be exact, were flatly rejected.

Many of those vetoed by the people were far-fetched educational projects, such as the plan to provide free lunches for all in the public schools of Georgia.

It would seem obvious that those who utilize a school are in the best possible position to judge whether a proposed "improvement" is really that, or just another frill which is at best embroidery on the surface of worth-while education. There is ample evidence now that parents throughout the length and breadth of the United States are aroused by the poor results of public school training as witnessed in their own children. There is far less reliable evidence to show that this inadequacy can be blamed on lack of educational facilities. Wherever the latter are clearly needed, the voters of the locality seldom turn them down.

Therefore, any move by Washington to assume

By Felix Morley



FRED J. MARGON

TRENDS continued

control of school financing should be viewed with double suspicion. Such centralized expenditure is not only likely to be wasteful, because often deemed unnecessary by the very communities which are supposedly to be helped. Even worse than waste, the federal aid may also be a direct denial of the democratic process. After a community has expressed negative judgment on a project it really understands, in comes Washington to override the local verdict.

This assault on the fundamental principle of a federal republic would be deplorable even if the Department of HEW were well informed on local educational needs. Actually, the information in its possession is in many cases valueless. For instance, classroom shortage in the United States has in recent years been estimated by the Office of Education as follows: 1950, more than 250,000; 1954, 370,000; 1956, 159,000; 1957, 142,000. The utter unreliability of these guesses was emphasized when Adlai Stevenson, campaigning for the Presidency in 1956, used them to assert that we were "falling behind at the rate of 50,000 classrooms a year." Perhaps with political prompting, the Office of Education then promptly guessed again, to estimate that we were not losing but rather gaining ground at the alleged rate.

• • •

In his outstandingly valuable study of "School Needs in the Decade Ahead," Roger A. Freeman explains why these, and other much-abused educational statistics, must be viewed with a critical eye. Since there is no accepted standard of what constitutes need in this field, the local authorities report it as each and everyone sees fit. One conscientious high school principal concludes that with a little classroom readjustment he can get by for another year, and says so. Another would like to add four more music rooms, a solarium and teachers' lounge and therefore reports a shortage of six classrooms.

As processed in Washington, the totals of these reports bring strange results. Thus in 1957 it was announced that Minnesota and Wisconsin had respectively 5,003 and 478 classroom shortages. This certainly did not mean that the public schools of Minnesota were then more than 10 times as badly off as those of Wisconsin. It meant, says Mr. Freeman, precisely what it would mean if one man bought 10 apples and then boasted he had twice as many units as his neighbor, who had bought five bushels.

When something uniformly measurable is involved, such as miles of paved highway, statistics

collected by the states and transmitted to Washington are useful.

When there is no agreed standard of measurement, as in classroom shortages, such haphazard compilations are not so much useless as dangerous. That is because they are used—most unscrupulously—to create the impression of shameful situations which can only be remedied by the intervention of the national government.

Fortunately, Americans are increasingly coming to realize that the central problem of the public schools is not one of bricks and mortar—nor of teachers' salaries—but of an easy-going, noncompetitive, "life adjustment" curriculum. Because all children have been given the right to schooling, the easiest plan of instruction is one that will not overtax the poorest mentalities. As a result, able children are seldom forced to exert themselves and are frequently left untrained in fundamentals, as becomes so tragically clear when they must meet the rigorous standards of first-class colleges and engineering schools. It was certainly cause for sober thought to learn, as Russia overshot the moon, that enrollment in college engineering courses in the United States is four per cent lower than a year ago.

This very real issue, however, is concealed by a flood of propaganda emotionally suggesting that the school problem is merely one of money which the national government can and should supply. Indeed, any attempt to stress the vital importance of hard-hitting competition in education is likely to be characterized as undemocratic. It is more democratic, apparently, to retard and suppress the gifted child than to flunk or discipline the others.

• • •

This is the more disturbing because coincident with a novel theory of democracy comes a frontal attack on the traditional American interpretation of the word, which was that the people of a locality should so far as possible control their own affairs, with strict limitation on the authority of the national government to push them around. Nowhere was this tradition of localized democracy more deeply rooted than in the field of public education.

The Democratic Party, now firmly in control of both Houses of Congress, will necessarily demonstrate during this session which brand of democracy it upholds. More clearly than anywhere else the legislation, if any, on education will give the answer. The current Administration proposals on federal aid try, though without much apparent conviction, to retain the substance of the American tradition. They accord with the old concept of democracy. For that very reason they are the more subject to attack from those who use the word as a cover for what should more accurately be called socialism.

Skip the Surveys... Stick to the Record

Leading Magazines in Advertising Dollar Volume			1958 OVER 1957	
1957 RANKINGS	1958 RANKINGS	1958 VOLUME	GAIN	LOSS
1. Life	1. Life	\$122,628,205		\$14,894,289
2. Saturday Evening Post	2. Saturday Evening Post	87,606,491		3,292,540
3. Time	3. Look	43,094,484		366,946
4. Look	4. Time	41,569,248		3,543,373
5. This Week	5. This Week	40,685,525	\$1,470,915	
6. Ladies' Home Journal	6. Ladies' Home Journal	26,976,551		2,529,890
7. Better Homes & Gardens	7. Better Homes & Gardens	24,456,413		4,803,973
8. American Weekly	8. PARADE	23,882,853	\$4,458,423	
9. Newsweek	9. American Weekly	23,186,532		1,563,429
10. McCall's	10. Reader's Digest	21,699,110	\$3,646,645	
11. Good Housekeeping	11. Good Housekeeping	21,307,437		180,236
12. Business Week	12. Newsweek	21,234,800		1,661,000
13. PARADE	13. McCall's	18,390,989		3,340,554
14. Reader's Digest	14. Business Week	16,470,187		3,269,866
15. U. S. News & W. R.	15. New Yorker	16,414,271	\$ 652,019	
16. New Yorker	16. U. S. News & W. R.	15,214,638		1,284,803

SOURCE: P. I. B.

Advertisers gave Parade a larger gain in advertising revenue in 1958 than any other magazine, Sunday, weekday or monthly . . . \$4,458,000 more than in 1957.

As a result, Parade has advanced to 8th place in advertising revenue among all magazines in 1958 . . . from 13th place in 1957.

This gain indicates the increasing demand by advertisers for the thorough coverage provided by local newspapers.

Parade

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	Miles	Cost	
OKLA. CITY to MINNEAPOLIS	714	\$7.25	\$1.25 to \$6.89
NEW YORK to CEDAR RAPIDS	929	8.85	1.05 to 9.21
CHICAGO to SANTA FE	1123	10.45	1.30 to 10.54
L. A. to CORPUS CHRISTI	1347	12.85	2.55 to 11.39

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Washington mood

Ike being challenged as military expert

FOUR OR FIVE YEARS ago, it would have seemed almost incredible, but now hardly anybody here is surprised when President Eisenhower is challenged in his own special field—national defense.

And he is being challenged vigorously by some Republicans as well as Democrats.

He is, of course, a West Pointer, a former five-star general, and doubtless the most famous military figure in the world today. Nevertheless, a good many members of Congress believe their judgment is as good as his, perhaps better, when it comes to the great arms race between the United States and the Soviet Union.

They believe this even though they may have risen no higher than sergeant in their Army days, or have had no military service at all. They believe it because they are afraid that General Eisenhower's common sense may have been overcome by what some call his "obsession" with a balanced budget.

So it is entirely possible that Congress will decide again this year that his military budget is not adequate, and vote a bigger one. If this happens, it won't be out of partisan spite; indeed, it will be hard to say that it has anything at all to do with politics. It certainly won't be something that can be charged to the spenders.

• • •

In the years 1953-56, it took a courageous member of Congress to question the President's judgment on military matters. He was considered to be pre-eminent, unassailable in this field. If a legislator did dare to question his military program, he was in danger of being howled down.

"Who knows more about national defense than the man in the White House?" some Administration spokesman would cry, and the answer was usually abashed silence.

So far as Capitol Hill is concerned, the Presi-



By Edward T. Folliard

dent began to lose his aura of military infallibility Oct. 4, 1957. That was the date of the launching of Sputnik I, with which Russia beat the United States into outer space. True, this country has had its own triumphs since then with the Explorers, the Vanguards, and with Atlas I. But always the Russians have seemed to be able to top them.

Just as official Washington was exulting over Atlas I, the first satellite to talk back to the earth, the Russians launched Lunik I. This ton-and-a-half space vehicle was the first to go beyond the earth's gravitational pull; it is now in orbit around the sun, history's first man-made planet.

What it all seems to add up to, in the view of many senators and representatives, is that Russia is definitely ahead of the United States in the de-

TRENDS continued

velopment of rockets which provide the thrust for firing H-bomb missiles across continents and oceans.

President Eisenhower, in his State of the Union Message, spoke with pride about America's "record of progress in space and ballistic missile fields."

"At the same time," he acknowledged, "we clearly recognize that some of the recent Soviet accomplishments in this particular technology are indeed brilliant."

He was obviously aware that many of the lawmakers gathered in the House chamber were disturbed by these Russian accomplishments, and aware also that they were far more concerned about national security than about a balanced budget.

"We must," he said, "guard against feverish building of vast armaments to meet glibly predicted moments of so-called 'maximum peril.'"

He wanted Congress to know that he had not left the military program entirely to the experts in the Pentagon.

"Over these many months," he said, "I have personally participated in its development. . . . I believe with all my heart that America can be as sure of the strength and efficiency of her armed forces as she is of their loyalty."

The President emphasized that his budget provided for "a sensible posture of defense."

• • •

It was significant, though, that the senators and representatives heard this part of his address in silence. There was not so much as a handclap from either the Democrats or the Republicans. They appeared to be skeptical, to say the least. If this mood continues, it seems likely that Congress at this session will do what it did in the last—vote \$1 billion or so more for the Pentagon than the Administration has recommended.

A few days before President Eisenhower went to the Capitol, he called leaders of Congress to the White House and briefed them on his military budget. This was just after the Russians had fired Lunik I. Leaving the White House after the conference, Senate Democratic leader Lyndon B. Johnson said he was "disappointed that we are not going farther and faster in our military and space programs."

He added:

"They (the Administration) are programing as if we were living in a static world rather than an exploding, expanding and developing world."

Sen. John Sherman Cooper, a Kentucky Republican, said that Congress had its own responsibility to determine the amount needed for defense

—that the President's word was not necessarily final. Whatever may be the outcome of the arms controversy, President Eisenhower is determined to keep up the fight he began with his State of the Union Message—that is, his fight to balance outgo with income. He is planning a series of TV broadcasts, and in these he intends to talk about the problem in down-to-earth terms—about the effect of continuing government deficits on the value of the dollar and on the family budget.

It promises, therefore, to be a very money-conscious session of Congress as the "battle of the budget" rages in Washington.

A little reflection will remind us that there has seldom been a time in our history when the dollar has been out of the minds of our legislators. Economic problems have been a top issue since the country was in its infancy.

The government set up during the Revolution, and continued under the Articles of Confederation, represented simply "a firm league of friendship" between the states that formerly had been British colonies. Congress could vote appropriations, but it had to depend on the willingness of the state legislatures to raise money and pay it into the national treasury.

It was this impossible condition that led to the drafting of the Constitution that gave us our present form of government. Something had to be done to avert the evils of the time, which included printing by the states of their own cheap money that sometimes sank as low as 10 cents on the dollar.

• • •

Under the new Constitution, Congress had the power to lay and collect taxes, pay the debts of the United States, and to appropriate money for the general welfare.

For a long time the annual appropriations voted by Congress continued to be small, measured against those of today. Then, in the administration of President Benjamin Harrison, they reached a magical figure. The Fifty-first Congress (1889-91) voted a total of \$1 billion.

Naturally there was criticism, and some of it was aimed at the Republican boss of the House, Speaker Thomas (Czar) Reed.

"Yes," said Reed, in a famous remark, "but this is \$1 billion country."

One might well wonder what Speaker Reed would say if he could come back and discover that the interest on our national debt alone now exceeds \$7 billion a year. He would be astounded.

On the other hand, he would just as surely be pleased to learn that our population is now approaching 200 million, and that our gross national product is within hailing distance of the half-trillion dollar mark.

Pack up your troubles in your new kit bag

1.



"I'm aching for a Group insurance plan," said Ray Martell,
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2.



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4.



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 And Ray extols The Travelers' kit for its simplicity.
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CAST IRON PIPE

CONGRESS READY TO FEED INFLATION

Here's advance look at forces that
will shape national policies

IN TERMS OF DEBATE and investigation, inflation probably will cause more commotion on Capitol Hill than any other issue this year.

Suggestions for solution will range from price-wage-credit controls, advance notice of price rises, extension of Federal Reserve Board powers and revision of anti-trust laws, to curbing of union power and revision of taxes.

However, the legislative action most likely to be pushed would fuel inflation more than fight it.

First and most important, pressures for new or increased federal spending programs will be enormous. These programs cover a wide range of activities starting with defense and including schools, airports, urban renewal, help to depressed areas, health, development of natural resources and others. All the enlarged or new spending proposals would drive up the federal budget and add to the national deficit. Another raising of the federal debt ceiling can be expected.

Liberalized federal lending proposals are also likely in many fields—housing, small business and agriculture, to name the leaders. Democrats will fight Administration efforts to boost interest rates on rural electrification, college housing and other cheap federal lending programs. There'll be a strong drive to boost the federal minimum wage and expand its coverage—steps considered inflationary in their impact on business costs.

This outlook for a lack of meaningful anti-inflation-

ary action and, in fact, action in the opposite direction is not expected to diminish the fervid expressions of congressional concern over the threat which inflation presents. Both political parties are aware that inflation and the high cost of living could be important issues in the 1960 political campaign, and each is determined to pin the blame on the other in advance.

The Democrats face the more difficult problem. Many Democratic lawmakers feel the high cost of living contributed to their victories last November, and they feel they must continue to attack what they call the "Eisenhower inflation."

At the same time, however, they must attempt to satisfy the various voting blocs that helped contribute to Democratic victories by pushing their projects.

Thus you are likely to see the Democrats in Congress move forward on the spending front while at the same time talking vigorously against inflation and attempting to put the blame for it on business (high prices, due largely to monopoly or administered price industries it will be charged) and the Administration (high interest rates as a cost element will be accused).

In return, White House pronouncements and statements by Republican lawmakers will point to the inflationary impact of Democratic spending schemes and the need to balance the budget in order to keep inflation in check. Big labor unions and their power to push wages higher than warranted by increased

INFLATION Continued

productivity will also be played up as a major contributing factor in price rises.

President Eisenhower set the stage for the Republican approach the day after the November election when he said that he feared the spenders had scored a signal victory. Subsequently the President called for a balanced budget, item veto authority over appropriations, and more control over farm program expenditures. He also has set up an interdepartmental study group on price stability.

In the battle of words, the Democrats have one highly potent weapon—their firm grip on Congress. Their leaders can be expected to make full use of a tried-and-proved device—the congressional investigation—to keep the spotlight on their version of inflation and its causes. Already, with the new Congress just arrived in town, several major investigations are shaping up.

The Joint Economic Committee, for example, has been asked by Senate Democratic Leader Lyndon Johnson to investigate the causes of inflation.

"We need light in dark corners," said Mr. Johnson, "and we need it soon."

It should be noted that Mr. Johnson has outlined a legislative schedule which includes economic stimulants for depressed labor areas, more federal housing, increased airport facilities, expanded water resource projects, new urban renewal programs and possibly lower interest rates.

He has complained that "we have no clear-cut idea of what is causing inflation and what should be done to prevent it. We are going to have to rid ourselves of preconceived ideas. We are going to have to approach this problem in the same mood that a surgeon approaches an unknown disease—not in the mood that a politician approaches an election."

Despite this worthy aim, the man who is expected to dominate the Democratic-sponsored investigations—Sen. Paul Douglas of Illinois, an economist himself—is far from free of preconceptions on this matter. Senator Douglas, key member of the Joint Economic Committee, has made clear in many recent statements that he believes a primary cause of the current inflation is the rise of so-called administered price industries. These are industries where a few large firms dominate the field and provide price leadership to other firms.

Mr. Douglas concedes the impact of budget deficits, labor cost increases in excess of productivity advances, and raw material price rises, but he believes that recently these have been of rather slight impact compared to the administered price industries. And his point of view will probably be heard frequently in the course of the investigation. Whether the Joint Committee's findings will be as impartial as in the past remains to be seen.

The Senate Finance Committee also may take a

new look at financial conditions across the nation. Chairman Harry F. Byrd of Virginia has used this forum before and will use it again to marshal testimony against high spending and big deficits.

But Senator Byrd's efforts may be overshadowed by the activities of his ranking Democratic committee member, Sen. Robert S. Kerr of Oklahoma. Senator Kerr has had experience in using a Senate Finance Committee investigation as a sounding board in his fight against the Administration's tight money policy. And he promises to use it again for this purpose and to investigate last year's activities in the government bond market.

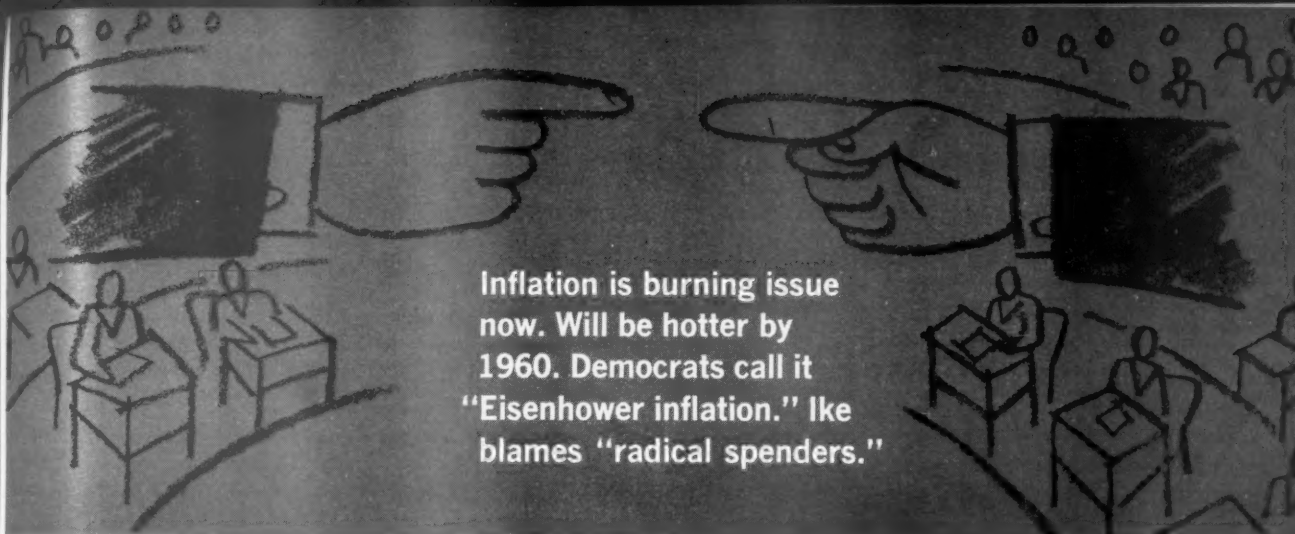
Another Senate investigation probably will also be billed as part of the Democratic "anti-inflation drive." This is the continuing inquiry into administered pricing by the Senate Judiciary subcommittee headed by Senators Estes Kefauver of Tennessee and Joseph C. O'Mahoney of Wyoming. They have already gone extensively into pricing practices in steel, automobiles and other industries and have said they will push this line of attack in the coming months.

In the House, Rep. Wright Patman, a Texas Democrat, can be expected to renew his efforts to bring about a special House investigation of the Eisenhower Administration's financial and monetary policy. Mr. Patman, foe of the Federal Reserve Board's tight money policy during the recent inflationary period, was narrowly beaten during the last Congress in his bid for a special committee to carry on such a study. With the marked increase in Democratic strength this year, he stands a much better chance to push through either a special committee or a special investigation by the House Banking Committee, of which he is the third ranking Democrat.

These major investigations will be supplemented by sporadic sorties by other committees and individual senators and congressmen. Already, many lawmakers in both parties have their own solutions for the ills of inflation.

Senator O'Mahoney, for example, has served notice he will push a bill which would require large corporations to give advance notice to the government before raising prices, arguing that "inflation can be halted by throwing the light of publicity on price increases." Firms controlling a large share of a market would notify the Commerce Department six months before such increases go into effect. The Department and Congress would have no power to prevent the increases, but they could conduct hearings and investigations to question and publicize the price rise plans.

Rep. Henry S. Reuss, a Wisconsin Democrat who sits on both the House Banking Committee and the Joint Economic Committee, is hoping to strengthen a bill he sponsored last year. This legislation has a two-fold purpose. First, it would require the President to include in his economic *(continued on page 88)*



Inflation is burning issue now. Will be hotter by 1960. Democrats call it "Eisenhower inflation." Ike blames "radical spenders."

BUT...

Prospect is for legislation that would accelerate rather than halt inflation:

Depressed area
stimulants

Public works
projects

Agriculture
subsidies

Increased federal
lending

More U.S.-supported
urban renewal

More social, medical
security payments

School building with
federal funds

Greater union
power

Restrictions on free
market economy

OUTLOOK FOR MONEY MARKET

Economic expansion is causing banks to change some key lending policies

THE AVAILABILITY and cost of money will be key factors affecting the rate of economic expansion in 1959.

Knowledge of the present state of the money market is vital to businessmen, consumers, government (federal, state and local), investors, and economic forecasters. Developments here are important not only because of their impact on credit expansion, economic activity and markets in general but because they directly affect present and future plans of borrowers.

Answers to these important questions will help you appraise the outlook for the money market in the months ahead:

- ▶ How liquid are the banks?
- ▶ What is happening to the money market now?
- ▶ How does the make-up of your banker's portfolio affect the credit picture?
- ▶ How does economic expansion influence credit availability and costs?
- ▶ How does the money market react to differing rates of expansion?
- ▶ What new sources of credit are available?

How liquid are the banks?

Banks are not as liquid as they were in 1955, the most recent comparable period of expansion in economic activity. This means they will be more dependent on Federal Reserve banks for funds to lend. Two key ratios tell the story:

1. The average ratio of total loans to demand deposits for the banks as a whole is about one fifth higher than in 1955.
2. The liquid asset ratio—cash convertible assets to total assets—is lower. The latter is a measure of the assets which can be readily cashed in without loss in order to increase lendable funds.

As expansion continues, this relative weakness of liquidity positions could cause bankers to apply the credit brakes unless the Federal Reserve acts to ease credit.

For the future, therefore, changes in these ratios will provide a significant clue as to the system's expansion potential.

Another indicator of the banking system's ability

and willingness to lend should be watched carefully in the coming months. It is the commercial banks' free reserves. These measure the difference between the banks' excess reserves (upon which it can expand credit) and the banks' total borrowings from the Federal Reserve.

These free reserves signal major shifts between monetary ease and restraint. At present, free reserves are behaving as they have in other periods of economic expansion. From a high of around \$500 million (monthly average) in early fall they have been declining steadily. If expansion continues at its present pace, free reserves could be lacking by mid-1959 or earlier.

To avoid this, the banks will probably step up their selling of liquid assets. This could cause security prices to fall and interest rates to rise. At this point banks would run into a profit squeeze. To continue to extend loans they would have to take capital losses on the investments they would be selling to obtain reserves to back the new loans. They might decide, instead, to limit their loan extensions.

The net effect of all of this could be to tighten bank credit. It could even lead to a slight contraction and a general curbing of liquidity, both within and without the banking system.

The money market now

Trends in the money market are mixed. On the cost side, money rates were moving up. On the supply side, commercial banks have not significantly stepped up their over-all rate of lending to business until recently, but have been increasing their holdings of government securities at a rate higher than any since the end of World War II. At the same time a huge budget deficit has been building up. The banking system will probably have to come to the Treasury's rescue in financing it in the coming months. This could mean Federal Reserve action to increase the money supply for this purpose.

The recovery in interest rates starting in mid-1958 was uneven but strong. By late 1958 long-term bond yields had returned to peak levels of the period prior to the recession. Short-term security yields and bank rates for business loans also advanced rapidly although they still had not returned to pre-recession levels. One result of the upturn in the short-term rates has been to narrow the rate differentials between

types of loans. Rates charged on large loans, always significantly lower than rates on small loans, have turned up more sharply than the latter. Area differences in loan rates have also narrowed. The traditionally higher rates charged by banks in the South and West have not turned up as fast as interest charges in the East.

All signs point to a continued climb in money costs although at a slower rate than the initial recovery in summer of 1958.

How your banker's choice of loans and investments affects your credit

Bankers' profits come principally from two sources: investments (mostly in government securities) and loans. The proportion of his total resources which he decides to allocate to each determines the supply of funds available for commercial loans. This basic decision will in turn decide the number and size of loans he will be able to make in the months ahead, and, of course, their price. Although many factors, including Federal Reserve policy, influence his final action, two of these are largely responsible for determining his portfolio and lending policies at any period:

1. The continuing battle between earnings and liquidity.
2. The stage or phase of the credit or business cycle.

Because it reflects the level of demand for loans, as well as credit supply, the latter directly influences credit lines, ease of borrowing, and loan rates.

Under some circumstances the banker might raise cash to increase his loans or pick up some new high interest-earning assets by selling some of his long-term securities. But today, because these have dropped in price, he would have to sell them at a loss. This is particularly important at this time because, during the recession, commercial banks were the major purchasers of long-term government securities. According to a Federal Reserve Bank of Kansas City analysis, this involved "sweeping changes in the maturity structure" of security portfolios. One immediate effect is to increase the prospects for a continued rise in long-term interest rates unless the Federal Reserve acts to ease money.

How economic expansion influences credit lines

A study of banking policy during the economic expansion of 1955 to 1957 has turned up significant information on how the particular phase of the business cycle affects bankers' portfolios and lending policies. Applied to your situation, it can help you shape guidelines for the use and availability of borrowed funds.

As the economy gained momentum between 1955 and 1957, commercial loans rose, but the demand for them rose even faster. As a result, bankers became more selective.

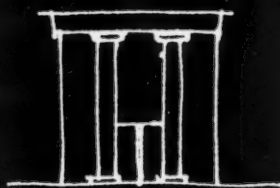
Borrowers could not get all the money they wanted and loan rejections rose. This general tightening was accomplished by significant changes in many lending policies and practices of commercial bankers.

At the same time, however, other credit policies were scarcely altered.

A close look at bankers' thinking will help you put your financial house in order so that you will be in the most favorable position to manage your borrowing in the year ahead.

Compensating deposit requirements: As the expansion developed, a prior (continued on page 46)

Factors affecting loans



- ▶ How liquid are banks?
- ▶ What are present trends?
- ▶ How does bank portfolio affect credit?
- ▶ How does economic expansion influence credit?
- ▶ How does money market react to expansion?
- ▶ What are new sources of credit?

HOW MANAGERS BECOME BUREAUCRATS

This analysis will help you avoid
the paralysis of too rigid procedure

THERE IS a gathering storm of criticism that the old enterprising spirit in business is passing and is being replaced by the cautious spirit of the bureaucrat.

Lyndall Urwick and Northcote Parkinson¹, British management experts, feel strongly that the "civil service mentality" is rapidly spreading among business executives. Business firms are becoming top-heavy with paper-shuffling, empire-building, and evasion by individuals of decision-making responsibilities.

In its broadest sense, this accusation charges that we are breeding a nation of bureaucrats. Government, which has usually borne the chief brunt of this accusation, is now being joined by religious, charity, entertainment and economic enterprises. This charge of growing bureaucracy in society is largely based on the belief that the essential creativity and spontaneity that we commonly believe have given us our affluence are receding as national ideals.

The question is whether business can remain dynamic if its executives become less and less interested in bold action and more concerned with perpetuating their jobs and avoiding risk.

We will be able to answer this question more soundly if we examine what bureaucracy is, how it affects management, how it differs from other kinds of executive thinking, and what are its major dangers.

Unlike the trend of democracy in business, which goes back at most 10 to 20 years, bureaucracy in business goes back as far as economic enterprise itself. We may even say that it goes back as far as social organization.

Ever since Plato based his ideal state on specialization of effort and limitation of size to approximately

5,000 people, we have had both the beginning of bureaucracy and attempts to minimize it.

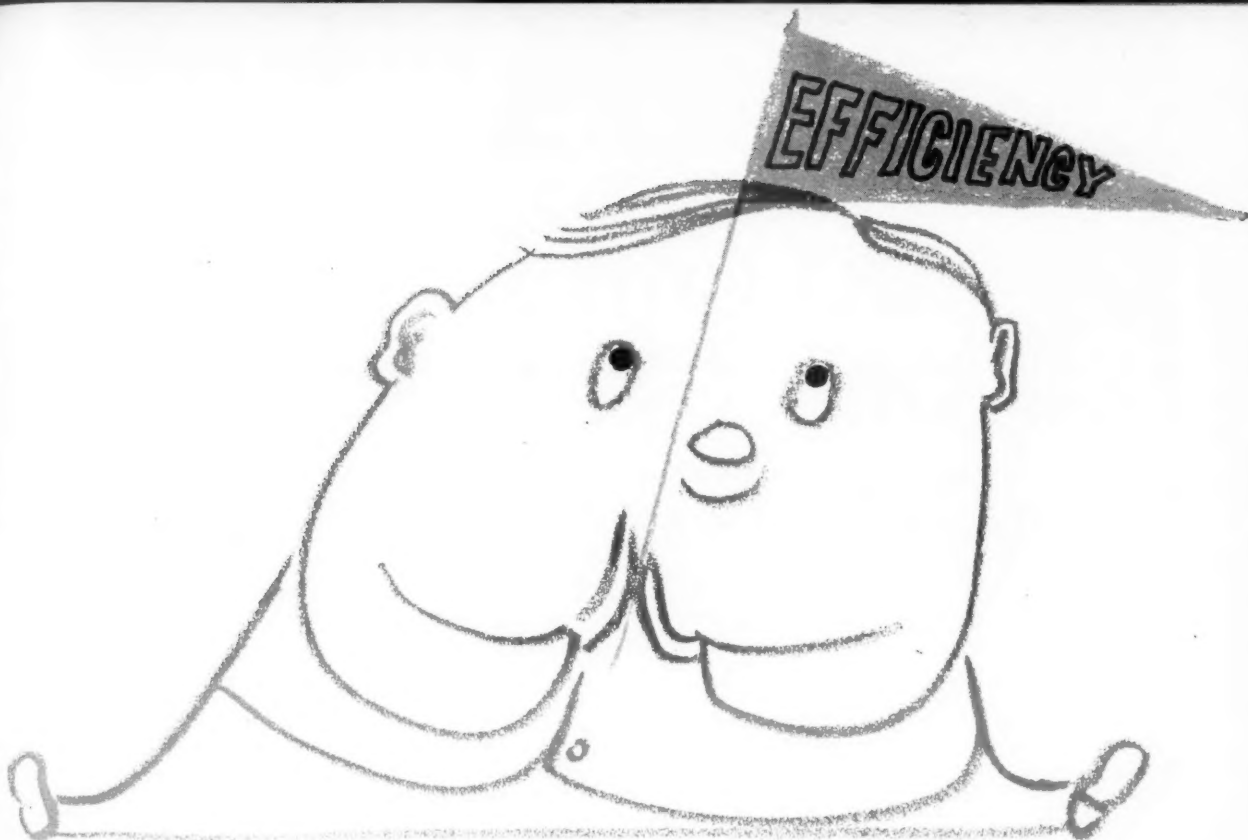
It is widely believed that the major cause of bureaucracy is that the size and the complexity of business enterprises require highly precise and predictable relationships. Organizational principles and procedures become worked out to the minutest detail. The effect is to create a system which constrains each member to act in ways that further the rational pursuit of organizational goals regardless of how irrational they appear to the individual himself.

Although it is ironic that businessmen—who for so long pointed to the red tape and lack of initiative in bureaucratic government—must now turn that finger upon themselves, it becomes imperative to lay to rest first the notion that bureaucracy is typically inefficient. Although this might sometimes be so, the fact is that bureaucratic organization is distinguished by complete devotion to efficiency to the exclusion of other objectives. The public antagonism for bureaucracy usually results from its ruthless efficiency—not from its inefficiency.

A psychological diagnosis of our antagonism is that bureaucracy is highly impersonal. We shall see this dimension more clearly by placing the bureaucrat alongside his two chief peers, the autocrat and the democrat.

In the NATION'S BUSINESS article, "Business Needs Mature Autocrats," (September 1958) it was noted that the autocrat attempts to make himself a key to all group action and eventually becomes indispensable. He expresses his need to dominate by keeping the group acting as individuals and on a personal basis with him. This means usually that communication is kept to the minimum of administrative necessity except insofar as it is through him and focused upon him. Because he becomes and remains

¹See "How to Improve Executive Training," NATION'S BUSINESS, July, 1958, and "Business Soft Spot—Too Much Administration," October, 1958.



A bureaucrat worships efficiency, dares not be a man of action

the focus of attention, he believes in becoming a well developed generalist, capable of coping with many and diverse situations. His whole life is given to developing himself to completeness.

The democratic executive is in some respects the direct opposite. He attempts to knit his group into a harmonious team so that the ensuing cohesion disguises who actually is running things. Rather than making himself indispensable, his primary aim is to develop subordinates so that he becomes superfluous. He seeks thereby to involve every member in determining group activities and objectives. Instead of developing in himself a complete competency, he is more interested in developing that complete competency in the group as a whole.

In short, the autocrat recognizes the superiority of the individual over the group, whereas the democrat recognizes the superiority of the group over himself.

The bureaucrat does not recognize the individual or the group as much as the organization. He is a system builder and places his faith in the ultimate perfectibility of that system. The highly creative and spontaneous individual is anathema to him because of his essential unpredictability. The bureaucrat tends to be suspicious of those who think they can operate successfully outside of a carefully planned system of intricate but highly efficient human relationships. His compulsion for routine and standardization of the individual's contribution represents his way of making sense out of an otherwise intolerably ambiguous set of organizational processes. He is potentially a worthy adjunct to the business system.

Whereas the autocrat is usually a man of action who places productivity above all other things, and the democrat elevates participation, the bureaucrat worships efficiency. In practice this means reliance on the judgment of experts.

Typically, the autocrat who needs, for example, a new subordinate, will rely upon himself to determine who is selected. The democrat will enlist the advice of his group. The bureaucrat refers the problem to personnel. This bureaucratic complex annoys the autocrat who feels more competent than the staff man. The democrat feels that group members should be involved in determining whom they want to live and work with in the years to come.

Loyalty to the chief is esteemed by the autocrat as the democrat esteems freedom of dissent. Respect for the rational judgment of experts is sacred for the bureaucrat. Furthermore, both autocrats and bureaucrats view democrats as terribly unproductive and inefficient, while democrats view autocrats and bureaucrats as insensitive to human values. Autocrats and democrats are today indicting bureaucracy as anonymous tyranny. However, all three types can be potentially despotic if there is an excessive amount of the autocrat's personal domination, the majority's arbitrary will and the bureaucrat's slavish subservience to his system.

Executives commonly believe that bureaucrats lack initiative, integrity and intelligence. Their failure to be creative and spontaneous does not mean that they are not hard workers, honest and reasonably alert. The bureaucrat may have

(continued on page 86)

YOU CAN SKIP THE NEXT DOWNTURN

What businessmen do now will shape future growth

PLANNING FOR DOWNTURNS can help reduce them.

Businessmen have learned to expect growth, and to plan for a bigger and bigger business volume five, 10 and 15 years hence.

They have learned, also, that growth is irregular. They know that growth which comes in spurts is much sounder than steady progress would be. But these two concepts—the concept of growth and of the irregularity of progress—have not always been melded in our minds.

Firms may expect their business to be 10 per cent bigger two years hence, and 25 per cent bigger five years hence. They will plan for such growth.

But many who prepare for long-range growth have not learned how to prepare for an interruption in their progress—an interruption which may mean that, three or four years from now, their business may actually be below its current level for a time. Business has made some progress in planning for expansion periods in times of recession (see "Be Ready for the Upturn," NATION'S BUSINESS, March 1958). It has not been as successful in planning during good times for the inevitable recession periods that must come.

Interruptions to progress are at least as certain as progress. According to tabulations of the National Bureau of Economic Research, periods of expansion have been interrupted during the past century, on the average, after about 27 months. If periods of expansion connected with wars are not counted, the interruptions have come even closer together.

Business tends to fluctuate around a growth curve. At some period in each cycle the rate of growth may be far greater than average. At other periods it may be negative.

A line drawn through the mid-points of the curves made by fluctuations in a given business over a period of years may go up an average of four per cent per year. A line drawn through the high points may also go up about four per cent. Growth on the average

may, therefore, be four per cent a year, and growth from peak to peak may be four per cent. The growth from trough to peak may be far greater, say from 20 per cent to 30 per cent in a year. But the trend from peak to trough may be negative.

It is just as important to be ready for these negative periods as for the periods of expansion.

A few firms already have learned how to take this into account in practical ways. They have long-range programs which call for average rates of growth which a careful analysis indicates can be sustained. They also have short-range programs of three to four years, which are quite different from the long program. The short-range program may anticipate a rate of growth for a year or two of five to 10 times that which can be sustained for a long period, and then the short-range program may allow for a cessation of growth, for a regrouping of forces and a protection against a general recession. The program custodians will then plan for another period of high growth.

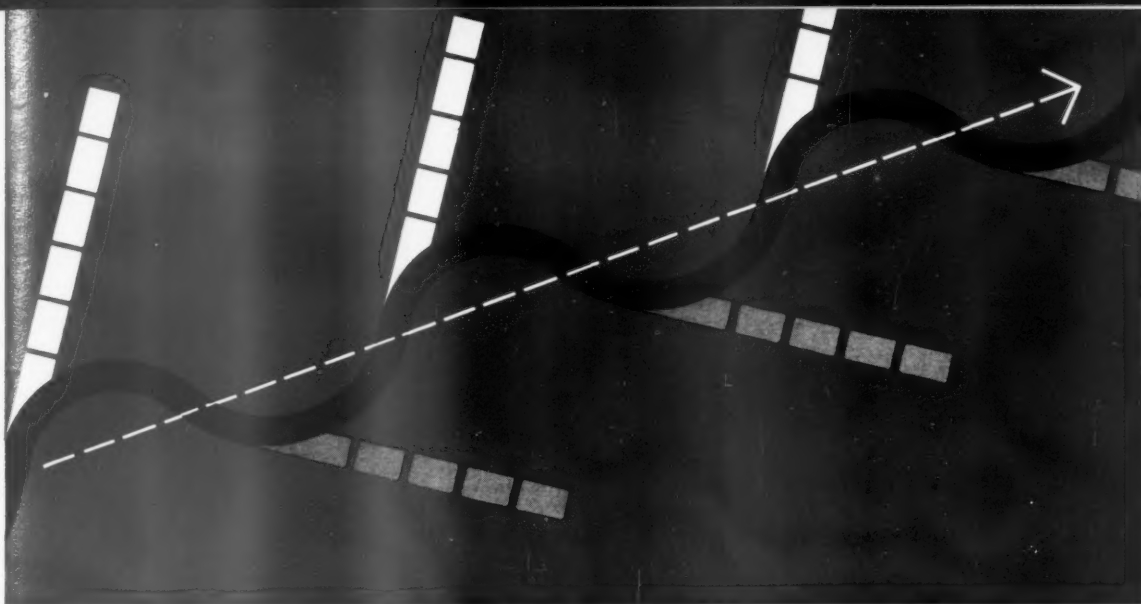
Such planning is far more realistic than that which is based only on over-all, long-term possibilities.

A second helpful device for getting ready for the next recession—and thereby minimizing its impact—which many companies use to advantage is that of comparing past cycles in your industry with those in business as a whole.

Suppose you are selling conveyer equipment. You could make the following comparison:

ANNUAL RATE OF RISE			
	FRB index	Conveyer equipment	Your company
Trough '49 to trough '58	3.5	9.0	9.5
Peak '48 to peak '57	3.6	8.0	8.5
Center '48-49 to center '57-58	3.6	8.5	9.0
Per cent decline from peak recessions			
Peak '48 to trough '49	12	40	30
Peak '53 to trough '54	13	10	10
Peak '57 to trough '58	16	40	25

This would indicate that, while the Federal Reserve Board index has been rising on an average of 3.5 per



You can miss real trend if you overemphasize upturns or dips

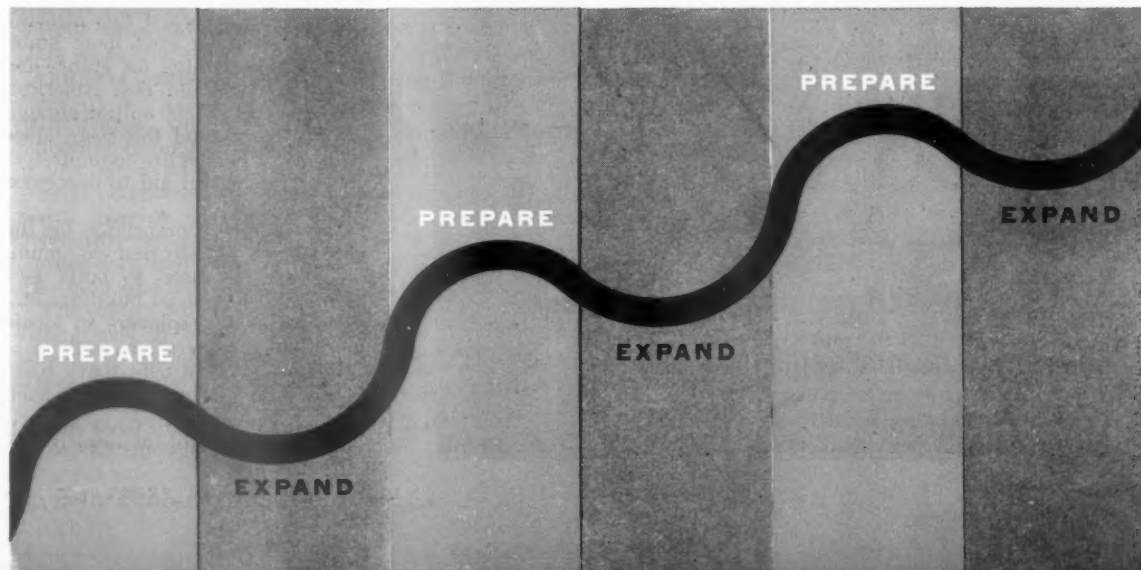
cent per year, and the conveyer equipment industry has been growing at about nine per cent annually in recent years, your company has risen 9.5 per cent per year. In addition, your peak to trough and trough to trough comparison shows a still better picture. You have not dropped as far in recessions as other companies. You have grown as much from peak to peak, but held more of your growth in the slack periods which followed.

This gives you one base from which to prepare for the next recession. You might conclude that, even if the **FRB** index drops as much as 15 per cent to 16 per cent in the next recession, with improved management you can hold your drop to possibly 20 per cent.

Another needed premise from which to take a read-

ing on the impact of the next recession on your own company is the length of time that may be counted on before the next recession comes. The expansion periods of the '20's averaged 23 months in length. The 1954-57 expansion was 35 months long. It is not safe to say that the current, or any particular future expansion, will last 23 or 35 months. The statistics suggest a probable range between 20 and 40 months. Detailed examination of the forces at work today suggests that the length may be closer to 40 than to 20 months. For initial planning it might be useful to assume a range of 30 to 40 months for the current expansion which began about April 1958. That would suggest that the next peak might come between the fall of 1960 and the fall of 1961. The limits of this range can be narrowed as the *(continued on page 96)*

Plan next expansion during boom; launch plan at decline's end



MAKE-JOBS PLAN GETS NEW LIFE

All business will feel impact if Congress subsidizes depressed areas

BUSINESSMEN EVERYWHERE have a dollars-and-cents interest in a new fight shaping up in the Eighty-sixth Congress over proposals for helping America's depressed areas.

The issue has broad implications because federal financial assistance, if voted by Congress and approved by the President, will:

1. Have to be paid for through taxation by business in all communities, whether healthy or depressed.

2. Change the ground rules under which communities compete for new industry.

3. Put the federal government into competition with private development credit commissions, more than 8,000 local industrial promotion and development organizations, and many state and local governments and private companies, 1,500 of which are industrial financing mechanisms on the local level.

Those are the threats. Here is more detailed background on the issue to help you follow debate in Congress in the weeks ahead:

Strong forces on and off Capitol Hill are working for legislation which would authorize a multimillion dollar tax-financed program of federal loans and grants to industrial communities with persistent labor surpluses totaling six per cent or more of the local work force.

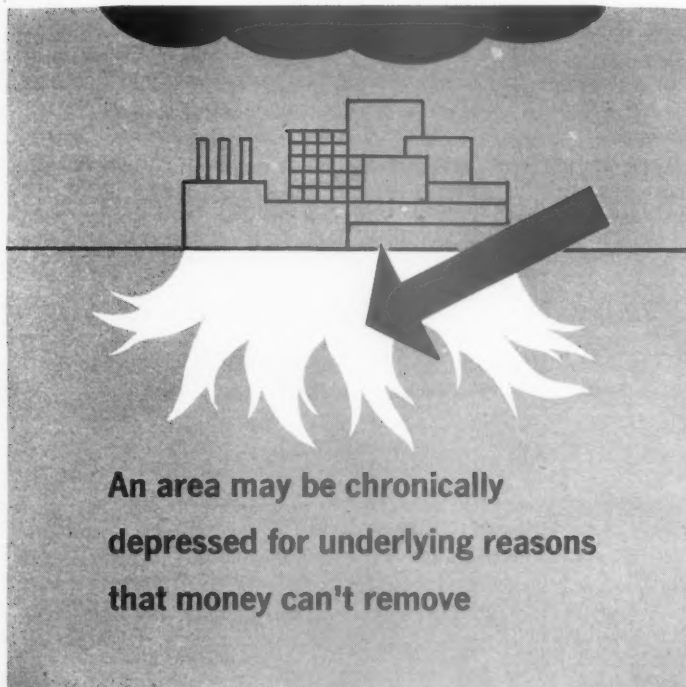
By latest government count there were 83 major labor surplus areas and 189 smaller areas.

Efforts have been made in Congress in the past to make federal aid legislation for depressed areas operative. They have been supported by the Eisenhower Administration, the AFL-CIO lobby, and key Senate and House figures, including Democratic Sen. Paul Douglas of Illinois. A \$279 million area redevelopment bill passed both houses last fall but died under Presidential veto. Although the President had favored a \$50 million bill, he regarded this measure as excessive. An even more ambitious bill, providing for grants and loans which would cost American taxpayers up to \$300 million annually, will be pressed this year, since both major parties are committed to support of federal aid to depressed areas.

Any money appropriated for the economically distressed communities would be used to build new plants and industrial buildings and to tempt new employers to locate job-producing operations in them.

Fact-seekers insist that there would be serious booby traps in such a program.

Here are some of the negative re-



sults that are foreseen from following this type plan:

► Federal financial aid to depressed areas would be unfair insofar as it would require healthy communities to pay for the recovery of ailing areas. This would mean that healthy communities would be taxed to assist the recovery and development of communities with which they are competing for industry.

► Federal financial aid to depressed areas, once set in motion, would be difficult to control and would, probably, grow to dangerous proportions because of inevitable political pressure.

► Federal financial aid to depressed areas could cripple and perhaps destroy the considerable progress already made by private groups toward solving localized problems of chronic labor surplus.

An even more basic criticism of schemes for using tax dollars to revitalize depressed areas is that such schemes overlook the dynamic nature of the American economy. The interplay of forces will always make for varying degrees of health and stability, industry-by-industry and community-by-community. In a free economy, the critics of federal aid say, you can't legislate away the elements of chance, risk and change.

In the face of such economic reasoning why does the clamor for federal aid to depressed areas persist?

One major wellspring of the idea is the controversial Employment Act of 1946. This act suggests that the federal government has a mandate to promote "maximum employment, production and purchasing power." The letter of the act is not being observed, proponents of federal aid argue, so long as pockets of chronic unemployment exist year after year.

Critics of federal aid for depressed areas are not insensitive to the human distress which results when individual communities do not share at any given point in time in the general economic growth and prosperity. Nor do they cling in any doctrinaire fashion to the belief that chronic localized unemployment is inevitable and beyond correction.

The schism between the pros and antis comes on the point of how aid should be administered, and by whom. Partisans of federal aid generally feel that the problem of persistent local unemployment cannot be solved through local private ac-

tion. They see even highly localized labor surpluses as threatening the stability of the entire economy. They believe that, although private local action helps, it cannot hope to effect a broad-based recovery of a slump-ridden local economy unless coupled with dollars from the federal government.

The coming congressional debate will feature a tie-up of the depressed areas issue and foreign economic aid. Proponents of federal aid for areas of chronic labor surplus will charge that it is unreasonable for the U. S. to subsidize the development of nations overseas if it is not willing first to do something to help its own stricken communities and jobless workers.

Opponents of federal aid for depressed areas take the position that deep-seated, localized and often unique economic factors cause chronic labor surpluses in communities and that these surpluses are inherently local problems requiring local action. This position was clearly stated by William A. McDonnell, president of the Chamber of Commerce of the United States, in testimony last spring before the House

Committee on Banking and Currency.

Mr. McDonnell told the House committee that the National Chamber questioned the wisdom of special federal loans and grants to so-called depressed areas. Here are some of the reasons he gave:

1. Such legislation would help some communities attract new industries and jobs at the expense of others.

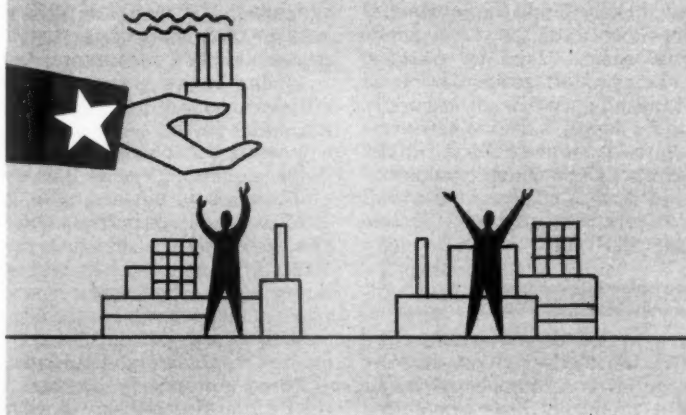
"At a time," Mr. McDonnell said, "when communities from every state are competing to attract new industry, the federal government should not give special advantage to selected areas. The political pressures on the administrative agency and the members of Congress would be enormous." (Only jobless workers in depressed areas would benefit. This raises the question of how unemployed workers in nonqualifying communities would feel.)

2. Merely building plants would not guarantee economic revival of a community.

"Yet," said Mr. McDonnell, "if the federal government undertook to stimulate plant construction in de-

(Continued on page 76)

The government would help some communities gain industries (and jobs) at the expense of others



HOW'S BUSINESS? today's outlook

State & Local government purchases of goods & services

1959		\$ 42.5
1958	(EXPECTED)	\$ 39.5
1957		\$ 36.3
1956		\$ 33.1
1955		\$ 30.3
1954		\$ 27.7
1953		\$ 24.9 Billion

AGRICULTURE

The four-year trend to higher farm land values is expected to continue in 1959, according to the U. S. Department of Agriculture. The six per cent rise in land prices during 1958 could be repeated this year, despite the prospects of lower farm income.

On the demand side, the need for larger, more efficient farming units is the most important reason for buying land. About two fifths of all transfers were for farm enlargement last year—nearly twice the 1950 ratio.

More costly farm real estate is also due to high levels of nonfarm income, the rising general price level, and the competition for land from industrial and urban growth.

The expected acceleration of the federal highway program in 1959 means, in addition to the substantial right-of-way needs, greater demands on the adjacent land for nonfarm use and for the re-acquisition of farm units by displaced farmers.

On the supply side, most of those who have it want to keep it. The Agriculture Department reports that sales of farm land due to financial distress are rare and will decline further this year.

CONSTRUCTION

In a period of rising costs, the construction industry got at least one reprieve. A number of major cement producers have announced

they will not raise prices this year.

Basically, the price raises would be avoided by not attaching escalator clauses in the basic charges. Changes would be governed by fluctuations in taxes or freight rates which would be passed on to contractors.

The move to hold the line followed continuous efforts by the Associated General Contractors to stabilize costs in this and other building material sectors.

The new move should mean great savings, not only to the industry but to the taxpaying public as a whole due to more stable costs for the federal-aid highway program and other public projects.

CREDIT & FINANCE

Spending by state and local governments is expected to continue the uptrend begun in late 1958. Federal spending on goods and services is also likely to move upward.

Modernization expenditures by corporations are expected to rise somewhat in the coming year with a more noticeable improvement in corporate liquidity as well as a general uptrend in business activity.

Most conditions indicate a further rise in consumer spending during 1959. This will tend to add some buoyancy to the capital spending plans of business. Over-all consumer debt declined during the past 12 months but this trend should reverse.

There are some indications that the Federal Reserve may move more

toward credit restraint. Member banks have been operating with a deficiency of lendable funds, with borrowings from Reserve banks up over their excess reserves by a fairly modest margin.

Rates on Treasury bills have also moved slightly higher. The most recent issue of the new 26-week Treasury bills went at an average rate of 3.233 per cent.

DISTRIBUTION

While 1959 will reflect sales and profit gains in distribution, the industry's bothersome question now is: How can the consumers' spending mood be gauged?

Some trade sources look for people to step up their purchases substantially early in the year for fear of price rises later on. Others take the view that the consumer spending mood will be restrained by some continued unemployment and an expected reduction in farm income. Nevertheless, there is general agreement that spending for both goods and services will be up.

Sharing in over-all improvement will be the durable goods trades—automobiles, appliances, furniture, hardware—which trailed in 1958.

Department store leaders estimate average sales increases of three-to-five per cent in the first half of the year.

At present most retail inventories are in good shape.

The advertising industry, having

Chamber of Commerce of the United States

recouped much of its early 1958 losses, reports that major advertisers' planned advertising budgets this year average 11 per cent above 1958.

FOREIGN TRADE

Although competition will be keener, U. S. export trade should eventually expand as a result of recent steps toward general European economic growth and activity.

Encouraging is the move of ten European countries to make currencies more freely convertible into dollars. Although this may not lead to a great expansion of U. S. sales unless quota restrictions on purchases from the U. S. are further liberalized, dividend payments by foreign subsidiaries will undoubtedly be more liberal. Some countries which have been accumulating funds abroad as a result of currency restrictions will be in position to bring their earnings back.

Further integration of the European market began Jan. 1 when the common market countries—France, West Germany, Italy, Belgium, The Netherlands and Luxembourg—reduced tariffs 10 per cent in their trade with each other. How this will affect these countries' relationship with other nations has not yet been determined.

More than 30 per cent of U. S. commercial exports go to West Europe at present.

GOVERNMENT SPENDING

Opposition to the President's \$77 billion economy budget is forming fast. The most pointed attack will probably be centered on such items as the proposed user charges, tax changes, the elimination of subsidized rates in the REA and college housing programs, and increases in postal rates and the gasoline tax.

The battle will make some strange political bedfellows. Some normally in the conservative camp and others who believe in "economy for everybody but me" will join the spenders in attacking the economy aspects of the budget.

The challenge to statesmanship which politicians in both parties will face will be greater than in any consideration of the budget in recent years. Inflation, profligate

spending, and signs of lost faith in the fiscal soundness of the federal government both at home and abroad undoubtedly will have a sobering effect upon even the most liberal congressmen. As a result, Congress is likely to be forced to follow the President's proposals somewhat closely—at least in overall terms.

LABOR

Groundwork for sound labor laws should come out of the report being prepared by the McClellan Committee, which has just completed its second year of operation.

Testimony from 1,000 witnesses (188 took the Fifth Amendment) will provide the labor committees of both houses with nearly 35,500 pages of testimony on violence, extortion, embezzlement and union dictatorship.

It will be for the Senate Labor Committee to translate this material into legislative language initially. The House Committee on Education and Labor will have its turn. There are indications it will deal effectively with the McClellan disclosures.

The McClellan Committee held more than 210 days of open hearings, spent nearly \$1.3 million.

NATURAL RESOURCES

The 1959 outlook for most natural resource industries is good. Estimated increases over 1958 range from 4.3 per cent for oil demand to 15 per cent for refined aluminum consumption and 26 per cent for steel shipments.

Continuous gains will be recorded by such perennial leaders as electric power sales. An expected increase of 9.5 per cent over 1958 is based on solid upswings in both commercial and industrial sales.

Tonnage of bituminous coal is expected to be about 10 per cent higher than last year's 405 million tons. Pulp and paper production should rise another seven per cent.

Consumption of nonferrous metals—copper, lead and zinc—should improve in spite of an estimated 78 per cent operating rate. Gains predicted are: copper, eight per cent; lead and zinc, 10 per cent. A sharp drop is expected in capital outlays for basic aluminum capacity as the

end of an expansion cycle has been reached.

TAXATION

Major reforms in our tax system are unlikely this year despite the almost universal recognition of the need for change to strengthen our economy.

The 52 per cent corporate rate and the rates of excises now scheduled to revert to lower levels July 1 will almost certainly be extended.

Renegotiation will also be continued and there is strong possibility the excise on highway and aviation fuels will be increased.

A new formula for taxing life insurance companies may be adopted.

Tax relief for small business will be widely debated and several congressmen have already issued statements on the form of bills they will introduce. These deal principally with reinvestment allowances, retirement plans and liberalized depreciation.

Code revision can also be expected to deal with corporate distributions and adjustments, income taxation of estates and trusts, and partners and partnerships.

TRANSPORTATION

The trend toward greater use of containers and truck-trailer interchange is growing.

Containers, though not new, are expected to receive increasing shipper approval as a means of cutting labor expense, expediting shipments, and reducing loss and damage costs.

Increased use is anticipated for roll-on, roll-off and lift-on, lift-off equipment in waterborne service. On the railroads, trailer on flat car (piggyback) service has been adapted to various shipper needs and will undoubtedly continue to grow in popularity. Under a new program, the railroads will now haul the shipper's trailer or container on the shipper's own flat car.

About one third of the Class I railroads now originate cars in trailer on flat car service. In 1958 they moved a total of 270,000 loaded cars, eight per cent up from 1957.

The truckers have inaugurated an industry-wide trailer interchange system, with more than 350 trucking firms participating.

Tighter money has found banks making a number of changes in lending policy

demand deposit became an increasingly important prerequisite for obtaining a loan. The lack of an established deposit relationship was a frequent reason given for rejecting loan applications. Most bankers required a prospective borrower to have a compensating balance in order to be eligible for a loan, particularly a sizable loan. Balance requirements were also increased. Furthermore, if reasonable balances were not maintained, interest rates for loans were raised.

Standards of credit worthiness: Analysis of underlying credit factors became more searching, and bankers required stricter adherence to repayment schedules. After a loan was granted, the banker tended to keep closer tab on how it was used. If it appeared that the firm was not profiting from the loan, the banker might withdraw it.

Bankers tried in a number of ways to upgrade the quality of their loan portfolios. Borrowers were required to have more equity and more collateral. Financial statements and earning prospects were studied more searchingly. The borrower's capital position received much more attention. His long-term outlook was more carefully evaluated. Finally, the firm's management was more continuously scrutinized.

In a study of industrial loan experience, Robert Roosa, a vice president of the Federal Reserve Bank of New York, observes, "In many cases, what the borrower considered to be a need for credit was merely a surface manifestation of underlying weakness in the technical, sales, financial, or accounting aspects of his own management."

New versus established customers: Established customers were increasingly favored over those applying for loans for the first time, firms shopping around for credit, and national concerns approaching the bank for the first time.

Loans to out-of-town borrowers: Bankers were increasingly reluctant to extend loans to out-of-town firms or to participate with their correspondent banks in such loans. Because of shortages of lendable funds, they tended to adopt a definite policy of serving local borrowers first.

Term loans: Many bankers reported a more restrictive policy on the granting of loans with maturities of more than one year. This affected large firms in particular. This type of loan lengthened the average maturity of loan portfolios and aggravated the problem of declining liquidity.

Policies on some loans showed scarcely any change:

Loan-to-deposit ratios: Most bankers reported that they generally held their limits for this key ratio fairly constant. More important, however,

Every businessman
has a dollars-and-cents
interest in the
new fight shaping up
over federal aid to
depressed areas. See
"Make-jobs plan gets
new life"
Page 42

is the fact that bankers reported that, as their policy limit was approached, they became more critical of loan applications. In particular, they tended to cut back both term loans and loans to new borrowers.

Credit lines: Established lines of credit were generally maintained throughout the expansion. But as banks approached their loaned-up limit they became increasingly reluctant to establish new lines or increase the size of established ones. In some few cases, however, banks reported that they had increased

their lines of credit to accommodate regular customers.

Loan renewals: Although over-all loan renewal policy showed little change, requests for renewals were reviewed more carefully and borrowers in many cases were asked to reduce their loans. Higher collateral was required for renewals and, in some instances, interest rates were increased.

Secured versus unsecured loans: Although there was some slight favoring of secured loans, no significant trend developed in this direction. However, many banks required better quality collateral than they had been accepting.

Types of industries accommodated: There was some variation in the types of businesses granted loans, but this was due primarily to shifts in the demand for loans rather than because of credit rationing. There were two exceptions, however: Loans to sales finance companies and commodity dealers were curtailed to accommodate other lines of business.

Bankers reported that, in spite of the credit shortages, they made substantial efforts to extend as many loans as possible. Their solution often was to reduce the size of the loan, to require more collateral or some other protection.

How the money market reacts to differing rates of expansion

The money market is extremely sensitive to the rate at which the economy expands and, in particular, the rate of expenditures on plant and equipment. The reactions of the banking system and the monetary authorities to this demand determine, in turn, the net availability of funds and the structure of interest rates. If, in the coming year, capital expenditures turn up sharply and the money market reacts as it did during the comparable 12 months of the last economic expansion—a period of unprecedented expansion of business credit—total commercial bank loans could rise at least 17 per cent to around \$110 billion outstanding, and business loans 23 per cent to a postwar high of more than \$50 billion.

The record shows that the demand for investment goods is the most important single clue to the strength of demand for commercial loans and the probable behavior of interest rates.

New sources of credit

New sources of credit have become available to two important

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MONEY MARKET

continued

Business is going to nonbanking credit sources

classes of borrowers. These classes are:

1. Firms requiring term loans which are too large for individual commercial banks to handle.
2. Small businesses that are unable to obtain funds through conventional channels.

Two new sources are available for the large borrowers—pool arrangements with groups of commercial banks and long-term loans from nonbanking institutions, such as life insurance companies, pension funds, colleges, etc.

The pool arrangement has received considerable attention in recent months. An example of this type of financing is a three-year \$130 million revolving credit obtained by Pan American Airways for the purchase of jet equipment. Thirty-nine commercial banks led by the New York Trust Company pooled resources to provide this financing.

The airline company has also taken advantage of the second source of large long-term loans—the nonbanking institutions. Pan American has incurred a long-term debt of \$90 million supplied by a group of insurance companies.

The lease-purchase technique is another ingenious device used by the nonbanking institutions. Large department stores have used this method to finance multimillion dollar shopping centers. Under this system the retailer finances construction through a combination of conventional short-term loans and internal financing. He then, under a prearranged agreement, sells the property to an insurance company, pension fund, or college which, in turn, grants the concern a lease of sufficient length to amortize the initial investment—usually about 30 years.

Several renewal options at sharply reduced rentals (generally one per cent of sales) are written into the original contract.

There are several variations of this procedure—all of them tantamount to long-term loans that have distinct tax benefits in some cases.

Many national firms are taking advantage of this technique.

For small firms, the new, non-banking sources of funds available include trade credit, the Small Business Administration, and state development credit corporations. All of these have grown up in the past decade and are increasing in importance. Another source which may begin to provide capital by late 1959 is the small business investment company, authorized by the Small Business Investment Act of last August and administered by the SBA.

The most important of these is trade credit—credit extended by large manufacturers or wholesalers to their customers. Repayment is generally on installments at a nominal but profitable interest rate.

According to the Federal Reserve, small business receives a greater share of its loan funds from this source than from conventional lenders and investors.

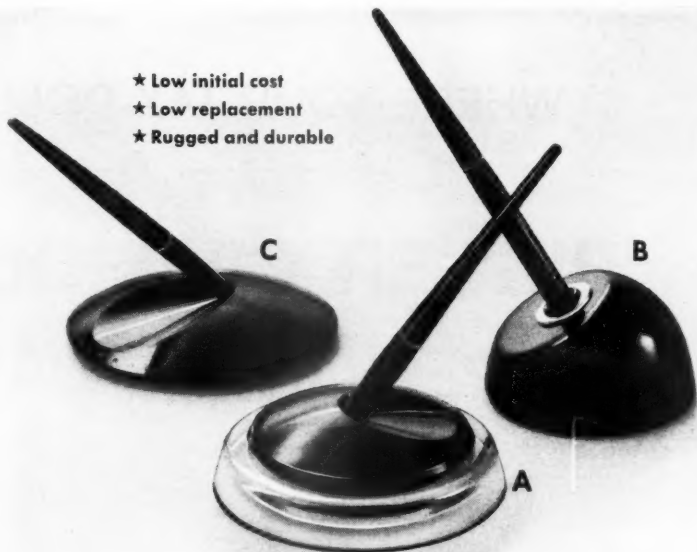
The growth in trade credit has been a postwar phenomenon brought about by several underlying factors. These include: changes in the structure of retail distribution, the growth of installment credit (including the revolving budget) and the shift to a buyers' market. Aggressive merchandising has compelled retailers to stock larger and more diversified inventories as well as to carry consumer receivables. Manufacturers and wholesalers have assumed most of this added financial burden by extending trade credit.

The Small Business Administration is the only government agency which lends money in significant amounts to small business. It extends credit to concerns only if funds cannot be obtained on a reasonable basis from banks or other private lenders. The agency cannot grant more than \$250,000 to a firm, with one exception. A pool loan in excess of this limit may be made to a corporation formed by a group of small businesses organized to build new facilities to produce or secure raw materials or supplies.

State development credit corporations have been organized in several states for the express purpose of supplying funds to new or existing businesses which can make a contribution to the state economy but are unable to tap conventional financial sources. These loans are treated as a development tool for the state's economy. Thus far, 14 states have authorized development credit corporations and some are even supplying the capital funds.

—HAROLD WOLOZIN

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WHERE YOUR TAX DOLLARS GO

BIGGER CIVIL DEFENSE SPENDING PLANNED

\$800 million already spent, agency
wants higher outlays for years ahead

A GOVERNMENT PROGRAM about which millions of Americans have shown almost complete indifference, and which already has cost taxpayers more than \$800 million, may soon cost a great deal more.

The program is civil defense, for which Congress voted \$45.3 million for the fiscal year that ends next June 30. Now the agency wants to boost its new authorization for the year ahead to \$87 million.

The agency which handles these funds is the Office of Civil and Defense Mobilization (OCDM), formed last summer by joining the Federal Civil Defense Administration and the Office of Defense Mobilization.

Head of the agency is Leo A. Hoegh, a former governor of Iowa. He succeeded a former governor of Nebraska, Val Peterson, who followed a former governor of Florida, Millard F. Caldwell, Jr. A nongovernor, James J. Wadsworth, served

as acting administrator for FCDA between Governors Caldwell and Peterson.

Administrator Hoegh of OCDM says the assigned civil defense task is "to prepare for and to execute nonmilitary actions to protect people and property . . . to prevent, minimize and repair injury and damage, and to mobilize and manage resources and production."

Here is a NATION'S BUSINESS rundown on the civil defense situation, with an indication of what's ahead.

► **Current cost:** Federal money is going out at the rate of \$5,100 an hour around the clock. State and local tax funds are being spent at about the same rate.

► **Future cost:** Congress will soon begin hearings on the agency's desire to hike federal outlays to an estimated \$10,000 an hour, with

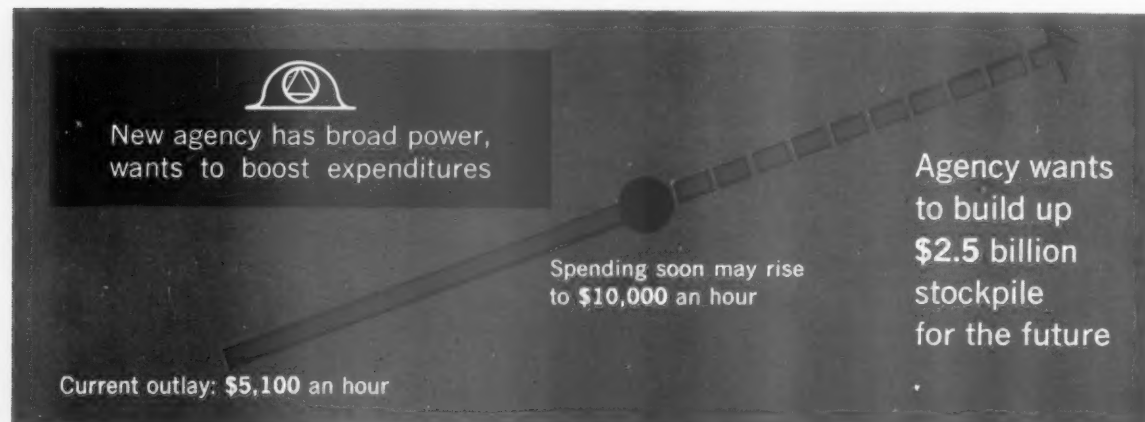
higher boosts for other years to come.

► **Long-range cost:** Billions will be involved. The agency, for example, wants to build up a civil defense stockpile of supplies worth \$2.5 billion. Currently on hand are supplies worth \$225 million.

The program also is aimed at stimulating higher expenditures by state and local governments. Business and industry, too, will be urged to channel large sums into civil defense ventures of one sort or another, as will individual American families.

Of more than \$800 million in taxes already spent for civil defense, approximately \$500 million is federal money allocated directly since the program was started in 1951. (More than \$2.1 billion has so far been requested.)

In addition, \$82 million worth of surplus federal property has been



turned over to civil defense use. Other federal agencies also spend money and devote staff time to civil defense projects. Authorities estimate this expenditure will total about \$6.5 million this year.

States and communities since 1951 have spent an estimated \$220 million. Tax outlays are climbing steadily. Significantly, state and local spending passed the direct federal expenditure by a small margin in 1957 when the flow of cash from Washington was \$39.3 million, compared with \$39.6 million from state and local treasuries.

How money is spent

For fiscal 1959 OCDM has \$45.3 million to spend (\$76.5 million requested). In addition, the agency will give away millions of dollars worth of surplus federal property.

Here's where the money is going:

Matching funds. \$17 million.

Three fourths of this money last year went to three of the seven CD regions—northeastern and far western states. Other states now are beginning to apply for matching funds. States and communities provide money of their own to qualify for Uncle Sam's cash. In the past, much of it has gone for health-related purposes. Nearly two thirds of the money now is going for communications equipment. Money also goes for fire-fighting equipment.

In the years ahead this type of expenditure is expected to rise. The law which created the federal agency in 1951 placed principal responsibility for civil defense with state and local governments. The Eighty-fifth Congress changed the law, dividing responsibility equally between federal and state and local taxpayers.

"The law authorized the federal government," Governor Hoegh says, "to assist the states and their subdivisions with their personnel and administrative costs. We hope Congress will provide the necessary funds to implement this partnership."

The Eighty-fifth Congress, in its final days, refused to provide additional funds the agency asked for, but the agency seems to feel it can expect better treatment this year and is asking for new authorization of \$25 million.

Surplus property. More than \$31 million was donated in fiscal 1958.

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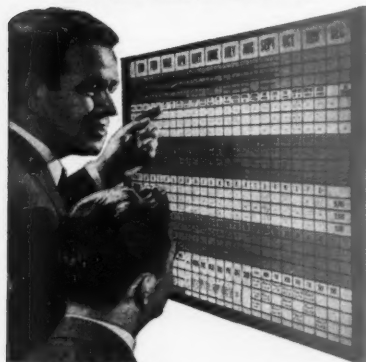
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BIGGER CIVIL DEFENSE SPENDING *continued*

OCDM will require local governments to meet more of their own disaster load

the program. Items include trucks, trailers, electrical equipment, fire-fighting and rescue equipment, construction and excavating equipment, communications systems, tractors, engines, hand tools, and so on.

While the property is given away, OCDM reimburses the community for half the cost of transporting equipment.

This program will increase.

Governor Hoegh says: "As we become more familiar—particularly the state and local governments become more familiar—with the procedures, the material and equipment that is available through this program, I think it will be accelerated considerably."

Stockpiling. \$18 million.

The stockpile for civil defense (not to be confused with the stockpile of strategic industrial materials) has items worth \$225 million. These include antibiotics and vaccines, plasma, medical and radiological equipment, generators, chlorinators, water purifiers, pumps, pipe, and 1,932 portable hospitals. States and communities may borrow portable hospitals (200 beds each) for display or training. Uncle Sam pays half the cost of transportation.

This expenditure is expected to increase substantially. Governor Hoegh wants to build up supplies worth \$2.5 billion for the years ahead.

Research, development. \$2 million.

Congress appropriates funds which OCDM passes on to other agencies and organizations, both in and out of government, to pay for research.

Here are some examples: \$150,000 to Naval Radiological Defense Laboratory for studying biological aspects of nuclear radiation; \$57,000 to Lovelace Foundation, Albuquerque, for studying biological effects of blast; \$53,000 to Department of Agriculture for fire research; \$53,000 to National Academy of Sciences for fire research; \$120,000 to National Bureau of Standards for radiological physics study; \$80,000 to National League for Nursing, Inc., for national nursing education plan; \$49,958 to Applied Psychological Services, Inc., for evaluating effec-

tiveness of courses taught by OCDM.

Expenditures for research since 1951 total \$25 million.

Expenditures sometimes involve a maze of interagency finance. For example, OCDM is paying the Army Medical Corps \$15,000 as partial cost of a blood research program. The Army in turn is contracting for a Memphis, Tenn., scientist to study the effects of radiation on animals, \$95,000 being contributed from the U. S. Public Health Service in the Department of Health, Education and Welfare. The HEW, again in turn, is getting \$103,917 from OCDM to study rapid identification of biological warfare organisms.

Other agencies, such as the Atomic Energy Commission and the Department of Defense, also spend money for similar studies.

A long list of OCDM research projects—total cost estimated at \$1.3 million—has been approved by OCDM officials and awaits obligation of funds. These include such things as shelter design for hospitals, \$100,000; food for shelters, \$25,000; development of a voice-modulated siren, \$50,000; medical self-help for shelter habitability, \$72,320; study of engineering shelter equipment, \$25,000; and so on.

When Congress approves sufficient funds, OCDM plans to pass along \$68,750 to the Department of Interior for a petroleum fuels study; \$50,000 to the Housing and Home Finance Agency for development of multifamily shelter designs; \$75,000 to HEW for studying medical care in shelters; \$55,625 to Agriculture for more fire research, and so on.

Additional projects, totaling approximately \$1.8 million, have been proposed but are not yet approved by agency budget officials. Other funds will be spent for field or laboratory testing and economic studies.

Expenditures for research are expected to rise over the years ahead, according to Governor Hoegh. Authorization of \$7.3 million has been asked for next year.

Miscellaneous. Other federal funds are spent for a broad assortment of activities. For example, in fiscal 1958 the agency produced 30 new publications, three motion pictures, 11 television and radio station an-

nouncements, 69 magazine articles and 91 news releases.

Money also is spent for training and the purchase of radiological measuring instruments for U. S. Weather Bureau stations and high schools. This year, says Governor Hoegh, "we are equipping 15,000 high schools with instruments for training a million students in their science classes."

OCDM also prepares exhibits (94 in the past year) for public view.

Much of the work of OCDM is performed by other agencies. Some money also is transferred to the budgets of other agencies.

"I don't want to get bogged down with a big staff," Governor Hoegh told NATION'S BUSINESS. With about 1,600 employees now, he envisions never going above 2,000. "I want this to be a directive agency, using existing agencies of the government to carry on a lot of these responsibilities."

Does the administrator anticipate any difficulty getting Congress to approve the proposed higher expenditures ahead?

"I don't think so," he told NATION'S BUSINESS.

The agency also administers a disaster relief program. "I believe that I will have sufficient funds on hand for that program," the governor says. "As it looks now, I will have about \$10 million by July 1."

Will any changes be made?

"Starting July 1," he says, "state and local governments will be required to do more of their own financing in case of natural disasters than in the past. They will not request federal assistance until they meet a certain standard that has been agreed upon by the governors and by the federal government."

Will the federal program be phased out completely?

"No," the administrator says.

The stockpile of strategic industrial items, also managed by OCDM, is valued at about \$7 billion. Will more money be spent?

"No," says Governor Hoegh, "that stockpile is adequate under the criteria that we have established."

Especially in terms of its civil defense functions, OCDM activities could have future far-reaching implications for businessmen. For example, with the authority of the President, its powers are almost limitless. Under so-called limited, national, or civil defense emergencies the federal government may:

- Freeze, control and specify wages, salaries, rents and prices.
- Ration consumer items and in-

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The administrator believes the government could impose these controls without the approval of Congress, although the normal course of action would be to submit proposals for congressional action. Meanwhile, the plans are kept in OCDM files ready for use. The key to possible action lies in the meaning, or interpreted meaning, of the words "limited, national, or civil defense emergencies." Although the connotation of national emergency is clear, no one can be quite sure what a limited emergency might be. It means different things to different people, and the principal threat to business lies in the possibility that an extremely liberal interpretation might be applied in the future.

Of more immediate importance, however, is OCDM's intention of stepping up a program of getting industry ready for attack. One company recently encountered this program when civil defense officials requested permission to inspect it for preparedness.

Once it passed the test, the company would be awarded a certificate and a pennant to fly from its flag pole.

But the OCDM medical inspector didn't like the kind of supplies the company had on hand, and a subsequent request was made that they be replaced by supplies approved by CD officials. Here is what the company told NATION'S BUSINESS:

"In addition to the hundreds of dollars worth of medical supplies in our medical department, we have three cabinets distributed around the plant. To supply these cabinets costs us \$4,500. Our doctors carry individual kits. Total cost of kits for 15 doctors is \$3,250.

"In addition to these, we have hundreds of cots and blankets distributed around the plant.

"CD wanted us to replace our set-up with special kits valued at \$775 each.

"The change-over would mean no additional cost to us; we just feel

that our set-up is better and more efficient."

So the company does not comply with CD standards.

Businessmen, too, may expect to be urged by CD officials to work out a line of succession for management. You can expect stepped-up activity here. In addition, industries doing work for the government may look for enforcement of contractual clauses requiring certain arrangements in connection with civil defense activities. Duplication of records to be kept in safe places is an example.

The agency also is attempting to work out a line of succession for government officials.

"I would say that within the federal government today, outside of the judicial and the legislative, we have a sound line-of-succession program," Governor Hoegh says. "I know some of the key agencies with which I deal have lines of succession up to 13 deep."

In working out the official succession for states and communities, the agency has hit a snag. It is desirable, according to federal officials, to have a line of succession at least seven deep. But some communities can't do this because of restrictions imposed by state constitutions. OCDM is seeking an answer. It has paid an educational research organization \$20,800 to work up a model state constitutional amendment. The federal agency will urge the various states to adopt this amendment.

Survival

On the problem of protecting people, Governor Hoegh says that basic survival depends, in the first instance, upon the individual himself.

"There are two courses of action in case of a warning of an attack," he says. "One is that if you have ample warning time you should be prepared to execute an evacuation from the target city. If time and conditions do not permit, then you should be capable of taking cover."

At this particular point in civil defense planning time, protection from fallout by taking shelter seems to be the number one move. Shelter from the bomb itself has been made meaningless by the destructive nature of the weapon. Fallout shelter,

however, seems more realistic than evacuation plans which can be useless without adequate warning time.

"You can't eliminate either one (fallout shelter or evacuation)," says Governor Hoegh. "It is necessary to plan for both."

The OCDM administrator says everyone should know five basic things: the warning signals and what they mean, the local and civil defense emergency plan, the Conelrad radio emergency channels for official directions and instructions (640 and 1240), how to protect yourself from radioactive fallout, and first aid and home preparedness.

"The individual had better be prepared to sustain himself the first two weeks," Governor Hoegh says. "You can't buy civil defense. It starts with the individual being properly led by government."

He recommends that households have food and water for two weeks stored in the basement or other safe place where the family can survive until radioactivity decays (which takes about two weeks).

NATION'S BUSINESS asked Governor Hoegh if he thinks people understand what is expected of them.

"I think we are getting the message across," he said.

There is reason to believe, however, that the message is not getting across. Conflicting instructions are often blamed, but there also seem to be very foggy notions of what to do under any circumstances.

A realistic test was made in Washington recently when electricians, while hooking two new sirens into the warning system, unintentionally tripped the alarm mechanism. Very few appeared to know what the warning signal meant. (It signaled "evacuate the city," or an approximation of it, which no one was prepared to do.)

Employees in the Library of Congress, across the street from the Capitol building, did not hear the alarm. About 5,000 workers in the Department of Agriculture left their desks, most going outside (as they had on previous practice alerts), others going into hallways. At the Veterans Administration 3,200 workers filed out into the street. State Department employees shot questioning glances at each other and went on working.

In the Department of Commerce 8,000 workers left the top six floors. Treasury workers heard the alarm but worked on undisturbed. Employees of the Post Office Department, Interstate Commerce Commission, Labor Department and General Services Administration



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DEFENSE SPENDING

continued

evacuated. Most Federal Trade Commission wardens found their air raid hats and arm bands, but few workers ventured beyond the first floor hall. Several International Cooperation Administration employees went to the snack bar and ordered coffee.

One high official remained in his office and tuned a radio to Conelrad—the civil defense channels at 640 and 1240 on the dial. But Conelrad didn't broadcast. An official of *cd* later said no Conelrad announcement was made regarding the false alarm "because the misunderstanding might create panic." How an explanation of a false alarm would have created panic he did not say.

Confusion, many critics contend, is perhaps the most important single factor that has contributed to the public attitude about nonmilitary defense matters. Although persons in high government office seem to think they understand what the policy is, millions of Americans don't. This is understandable when you review the wide variety of conflicting recommendations that have been hurled at the people since the era of civil defense began.

The continuity of confusion is maintained by the flow of conflicting instructions which continue from the central agency. No farther away from Washington, D. C., than suburban Arlington, Va., school officials (directed by central agency instructions) are arranging for mothers to drive children away from the metropolitan area—to where nobody knows, and on highways marked with signs that say these highways will be closed.

Not all confusion is restricted to recommendations issued by the different levels of civil defense operations. Inside most government offices, small cardboard signs list the alert signals and indicate nearest shelter areas. Recently a *NATION'S BUSINESS* editor, while talking with one of the high *cd* officials in Washington, noted that Room 1-D was indicated as the shelter area for the people in his office.

"Do you know where that is?" the official was asked.

"Yes," he said, without hesitation.

"Where is it?"

"Downstairs."

The fact is Room 1-D really is the men's room—not downstairs, but at the other end of the hallway.

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NB-2

EIGHT KEYS TO CREATIVITY

New research shows businessmen
how to identify imaginative workers

WHAT MAKES some people more creative than others?

Seven years of research at Pennsylvania State University have shed new light on this question of prime importance to business.

Here are some of the Penn State findings that are of immediate value to managers:

- ▶ There are eight distinct attributes that significantly differentiate creative people from those who are less creative or noncreative.
- ▶ These attributes do not register on standard intelligence tests. But they can be detected by a battery of special tests developed at Penn State and elsewhere.
- ▶ A person who consciously cultivates these attributes can substantially raise his own creativity potential.

The Penn State research team, headed by Prof. Viktor Lowenfeld, does not claim to have all the answers. The studies are continuing. But they have already gone far toward solving the riddle of creativity—the precious but elusive quality of mind and spirit that is responsible for all real progress in business, technology and the arts and sciences.

Dr. Lowenfeld, a native of Vienna who came to this country in 1939, is head of Penn State's Department of Art Education. He is a world authority on art education as well as a trained psychologist. He began his research on creativity in 1951 because he was convinced—six years before Sputnik aroused other Americans to the same realization—that "our existence as a nation may hinge on the efforts of creative people."

He emphasized in an interview that the Penn State studies are not

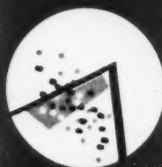
aimed primarily at categorizing individuals as creative or noncreative. Although he acknowledges the existence of inherent differences among individuals, he believes that "virtually every person has more creative ability than he is actually putting to use." His goal is to find ways to release this latent creativity.

The first step was to find measurable criteria which reliably distinguish persons of high creative performance from those of low creative performance. Dr. W. Lambert Brittain, a former student of Dr. Lowenfeld now teaching at Cornell University, reviewed all previous research and came up with 36 tests which covered every conceivable trait of mind or personality that might affect an individual's creativity.

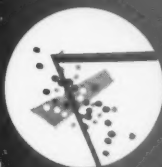
These tests were given to students who had previously been grouped,

TEST YOUR CREATIVITY QUOTIENT

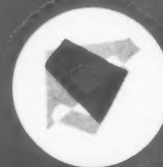
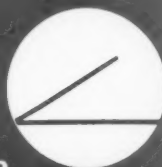
CREATIVITY TEST given by Penn State researchers confronts subject with five pairs of designs (below). Choose, from each pair, the one that you prefer.



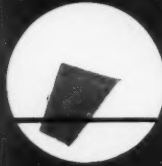
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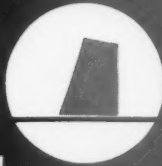
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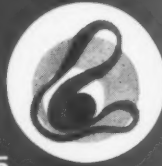
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4



5



For experts' choice of selections which indicate creativity see box on page 62.

on the basis of their actual performances in the arts, as highly creative or noncreative.

The results (which many repeat experiments have since corroborated) showed that eight criteria consistently differentiated the two groups.

At this point, Dr. Lowenfeld made an exciting discovery. Unknown to the Penn State researchers, a group under Prof. J. P. Guilford at the University of Southern California had been conducting similar studies on creativity in the sciences. Dr. Guilford had also identified eight attributes of the creative person.

His list proved to be virtually identical to the Penn State findings.

The striking similarity between these two entirely independent studies seems to warrant the conclusion that creativity has common attributes, whether it is expressed in the arts, the sciences or in a business environment.

Being a careful scientist, Dr. Lowenfeld does not take this conclusion for granted. Penn State has applied for a research grant from the National Science Foundation to prove the point with a controlled interdisciplinary study which will expose engineering students to the same creativity tests which have already proved valid for artists and scientists.

Meanwhile, less skeptical businessmen may apply to themselves and to the younger managers they are seeking to develop, some of the helpful insights that have emerged from the research already done:

Here are eight attributes of creativity defined by Dr. Lowenfeld:

Sensitivity

The creative person, says Dr. Lowenfeld, always exhibits an unusual degree of sensitivity—to problems, to needs, to the attitudes and feelings of other people, to the experiences of life. He has trained himself "to use his eyes not only for seeing but for observing, his ears not only for hearing but for listening, and his hands not only for touching but for feeling." He has a heightened awareness of anything that is odd, unusual or promising in the person, material or situation with which he is dealing.

At first, the researchers thought there might be a difference between perceptual sensitivity and social sensitivity. But repeated studies have shown that one closely relates to the other.

That is, indeed, one of the more

significant findings of the Penn State research.

There are a number of good tests for perceptual sensitivity. One, which is highly regarded at Penn State, was developed by the late Prof. L. L. Thurstone of the University of Chicago. It tests ability to recognize a word in which part of each letter has been erased.

Social sensitivity—the ability to identify with people and problems—is tested by giving the subject a statement of some present-day trend, and asking him to list four possible effects of this trend at some specified future time. For example:

"More girls have been born in the past five years than boys. What effects will this have 20 years from now (in addition to the obvious effect that there will be more women than men)?"

Possible answers:

"A growing number of spinsters."

"Agitation for polygamous marriage."

"More women taking up careers."

"Women will do the courting."

Fluency

Dr. Lowenfeld defines fluency as "the ability to take continuous advantage of a developing situation . . . to use each completed step as a fresh vantage point from which to plan your next move."

Penn State researchers polled 160 distinguished painters, writers, sculptors and composers to find out how they go about the creative work which has earned them world renown. One point which consistently stood out in their answers was that they usually do not begin with an elaborately preconceived plan. They start with an idea and let the creative process develop, step by step.

Since fluency involves the ability to think rapidly and imaginatively, it can be tested by asking the subject to list quickly as many words as possible that meet a specific requirement, such as expressing "enthusiasm."

Flexibility

This means the ability to "adjust quickly to new developments and changed situations."

Dr. Lowenfeld points out that happy accidents are likely to occur in carrying out any project. A sculptor's chisel may slip—and produce a striking, if unintended, effect. Or a businessman may discover that a sudden shift in public taste has greatly expanded the market for a product. Noncreative people tend to

be distressed by such developments; they were not part of the plan. But the creative person moves swiftly to take advantage of them, to adapt his plan to include the fullest exploitation of this welcome windfall.

Unforeseen obstacles—the bad breaks—also give the creative person an opportunity to display flexibility. Dr. Lowenfeld likes to play a trick on his art students. He has them rough out sketches for murals. They naturally assume the murals are to be painted on flat wall surfaces, and plan accordingly. But they find that the wall space assigned to them is in a corner—or is broken by some ugly object such as

(Continued on page 62)

MUTILATED-WORDS test assesses an individual's perceptual sensitivity. Point is to identify partially obscured words.

Example:

house

houusc houusc

TRY your hand on the mutilated words below.

Answers in box on page 62.

bread _____

artist _____

vision _____

riches _____

fantasy _____

vision " _____

by hand _____

highway _____

fantasy _____

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KEYS TO CREATIVITY

continued

a radiator or pipe. The less creative students are thrown for a loss. But the creative ones quickly rise to the challenge, modifying their plans to turn the obstacle into a striking feature of the composition.

Give the matter a little thought and you probably can think of a way, within the context of your own business, in which you can put junior managers over a similar hurdle to see how agile their minds are.

Originality

This is the best-known attribute of creative persons—the one that some other researchers have tended to treat as the only significant attribute.

So much has been written about originality that it requires no further definition here. But it is interesting that this quality, for all its familiarity, proved to be one of the most difficult to measure.

After repeated experiments, the Penn State researchers found the answer: Originality can be tested by the “uncommonness of a person’s responses to a given stimulus.”

One good test, now used in many places besides Penn State (see “Identify Your Creative People,” *NATION’S BUSINESS*, Sept., 1958), requires the subject to list six unusual uses to which some common object can be put. Take, for example, a newspaper. “To start a fire” or “to wrap garbage” are garden-variety responses. “To make a kidnap note” is an uncommon response that betokens a creative mind.

Skill at redefinition

This is the ability to rearrange ideas, concepts, people and things, or, as Professor Guilford puts it, “to shift the function of objects and use them in a new way.” The inclusion of this attribute in the list is a useful reminder, Dr. Lowenfeld says, that “creativity is not based altogether on new invention—it also involves the imaginative use of old things for new purposes.”

This kind of creativity is particularly valuable in the business world, where success often hinges on management’s ability to dream up new uses—and hence new markets—for old products. A dramatic example is the way Du Pont has developed ever proliferating uses for Cellophane. Skill at redefinition is also reflected in the kind of business thinking that turns waste products into salable commodities.

Penn State measures this attribute with a clever little test that, incidentally, makes an entertaining parlor game. It goes like this:

You are given a problem, and a list of five objects. You are told that you can use a part of one of the objects to solve the problem. You are also warned that the solution “may require ingenuity.”

For example, the problem may be “to start a fire.” The objects are a fountain pen, an onion, a pocket watch, a light bulb and a bowling ball.

The answer? You can use the crystal from the pocket watch as a burning glass to start a fire.

(If you want to try this on your friends or associates, you’ll have to make up your own problems from

tributes of creativity. Analysis is often thought of as a sort of plodding, logical process, which requires intelligence but not necessarily a creative spark. But this attitude simply reflects the popular tendency to think of creativity solely in terms of spontaneous invention or originality.

“Without analysis, no truly creative work is possible,” says Dr. Lowenfeld. “Analysis prevents us from making shallow generalizations, and allows us to penetrate into the nature of a problem or an experience. The noncreative person keeps looking at the whole problem as one big stubborn mass. The creative person starts breaking it down into bite-size chunks the moment he sees it.”

Although Penn State uses several rather complicated tests to measure this attribute, there is a simple one you can try on yourself or your friends.

It is based on the fact, established by Penn State’s studies, that there is a close correlation between a person’s ability to abstract and his observance of the details of his everyday environment.

Where is the green signal on a vertical stop light?

If you don’t know, you are not very observant, according to Dr. Lowenfeld. The green signal is *always* on the bottom, for the benefit of the color blind.

Ability to synthesize

This is the other side of the coin, the reverse process of the ability to abstract. It means the ability to combine several elements in a creative way to form a new whole. It can be tested by presenting the subject with words in a scrambled order, and asking him to combine them into a meaningful sentence. Another test, which is more perceptive when administered by an expert judge, is to give the subject a lot of unrelated objects—such as steel wool, strips of cardboard, pipe cleaners, tongue depressors, wire screen and scraps of yarn—and ask him to combine them into an aesthetically interesting three-dimensional composition.

Both of these tests may sound far removed from the business world. But a man who does well on them probably will also prove to be creative in, for example, bringing together a lot of different manufacturing operations to form one smoothly integrated production process.

Coherence of organization

This trait is hard to define, but Dr. Lowenfeld says that it invari-

ANSWERS TO TEST

The design test on page 58 not only shows creativity, Dr. Lowenfeld says, but indicates an individual’s sense of “organizational coherence.” This is the ability to grasp things in a way which eliminates the superfluous.

Here are the selections made by Dr. Lowenfeld:

- 1-Right
- 2-Left
- 3-Right
- 4-Left
- 5-Left

The words in the word-mutilation test on page 59 are as follows: bread, artist, pistol, pickles, sweater, window, blanket, highway, picture.

Please DO NOT write to Penn State asking for copies of these or other creativity tests. Dr. Lowenfeld does not regard any of the tests now in use as being in final form. He is constantly revising and refining them. They have not been mass-produced and no facilities are presently available for making large numbers of copies.

that sample. Penn State is currently using this test and doesn’t want to spoil it by publishing all of the questions and answers.)

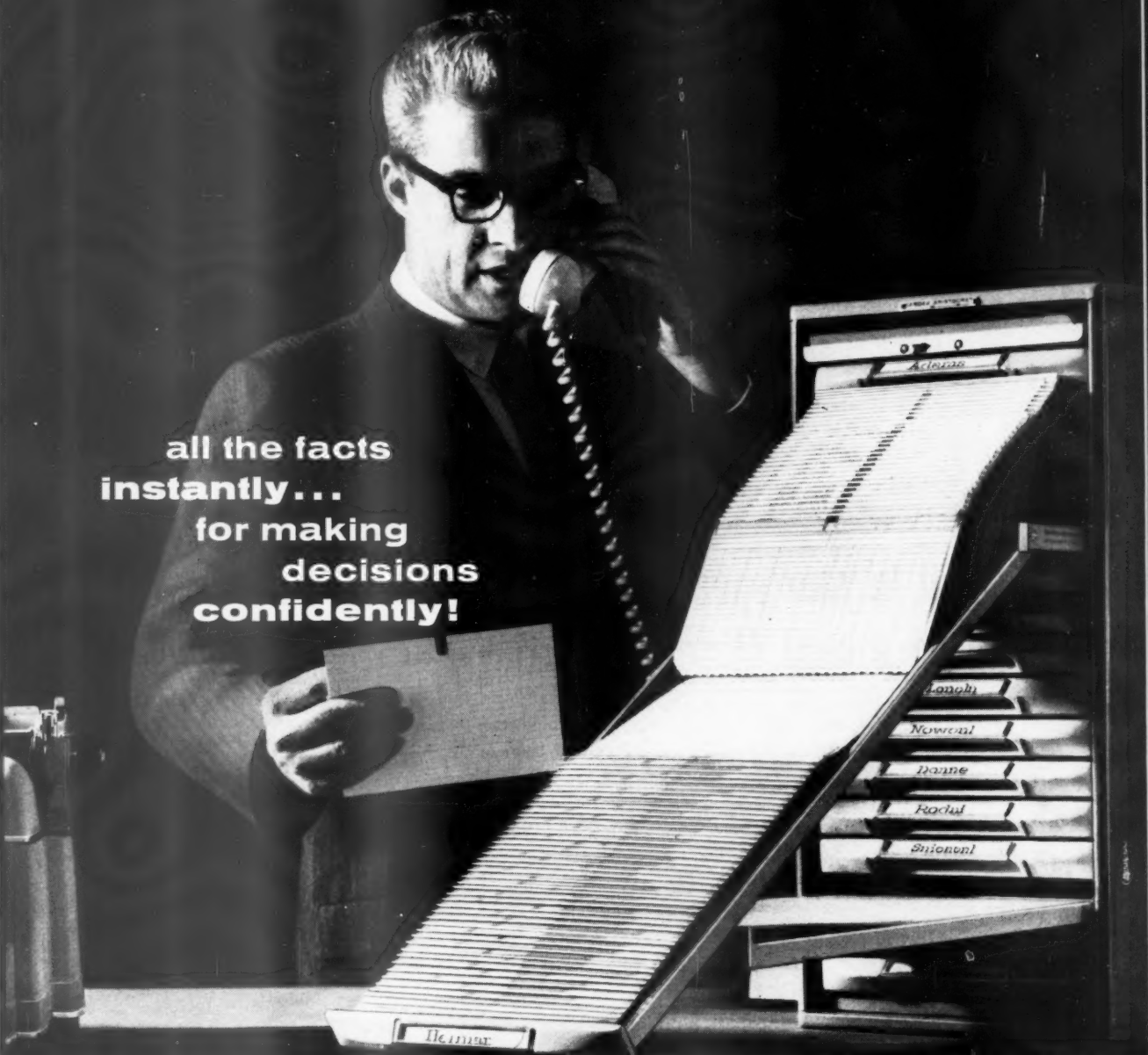
Ability to abstract

This attribute might be called “skill at analysis.” It connotes proficiency in breaking down a problem or a project into its component parts and comprehending the specific relationships among them—in Dr. Lowenfeld’s words, “abstracting details from the whole.”

It may surprise some to find analytical ability listed among the at-

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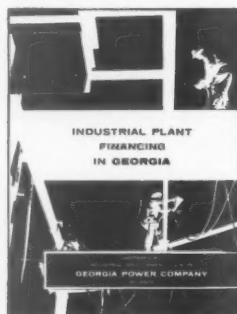
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KEYS TO CREATIVITY *continued*

Is your solution
original or is it
stereotyped?

ably shows up in creative people. Essentially, it is the ability to organize a project, to express an idea, to create a design in such a way that nothing is superfluous. It is getting the most out of what you have to work with, doing a job "as economically as is consistent with the objective to be reached."

Penn State's test for this attribute confronts the subject with six pairs of designs. In this test, developed by Dr. Alfred Kiesselbach, the subject is asked to choose, from each pair, the one he prefers. Though both designs are abstract, one combines the symbols in a more imaginative way.

Although the tests are not available to businessmen, there is, however, an immediate use to which the Penn State findings can be put.

"I believe that any person can heighten his own creativity," Dr. Lowenfeld says, "simply by carefully studying these eight attributes and consciously setting out to cultivate and practice them in his everyday life."

In other words, check yourself out on these attributes. Think back to some recent problem or situation in which you were involved. Were you really sensitive to the issues? Did you identify with the other people concerned? When you started working toward a solution, did you use one step as a springboard to the next — or try to bull through a preconceived plan?

Did you take advantage of the happy accidents? Was your solution original or was it stereotyped? And so on.

Don't expect to make too high a score on this self-evaluation—if you are honest with yourself.

"We can all be a lot more creative than we are," says Dr. Lowenfeld. "The first step toward improvement is to find out where we are weak."

—LOUIS CASSELS

REPRINTS of "Eight Keys to Creativity" may be obtained for 10 cents a copy or \$6.75 per 100 postpaid from *Nation's Business*, 1615 H Street N. W., Washington 6, D. C. Please enclose remittance.



Speeds retail figuring



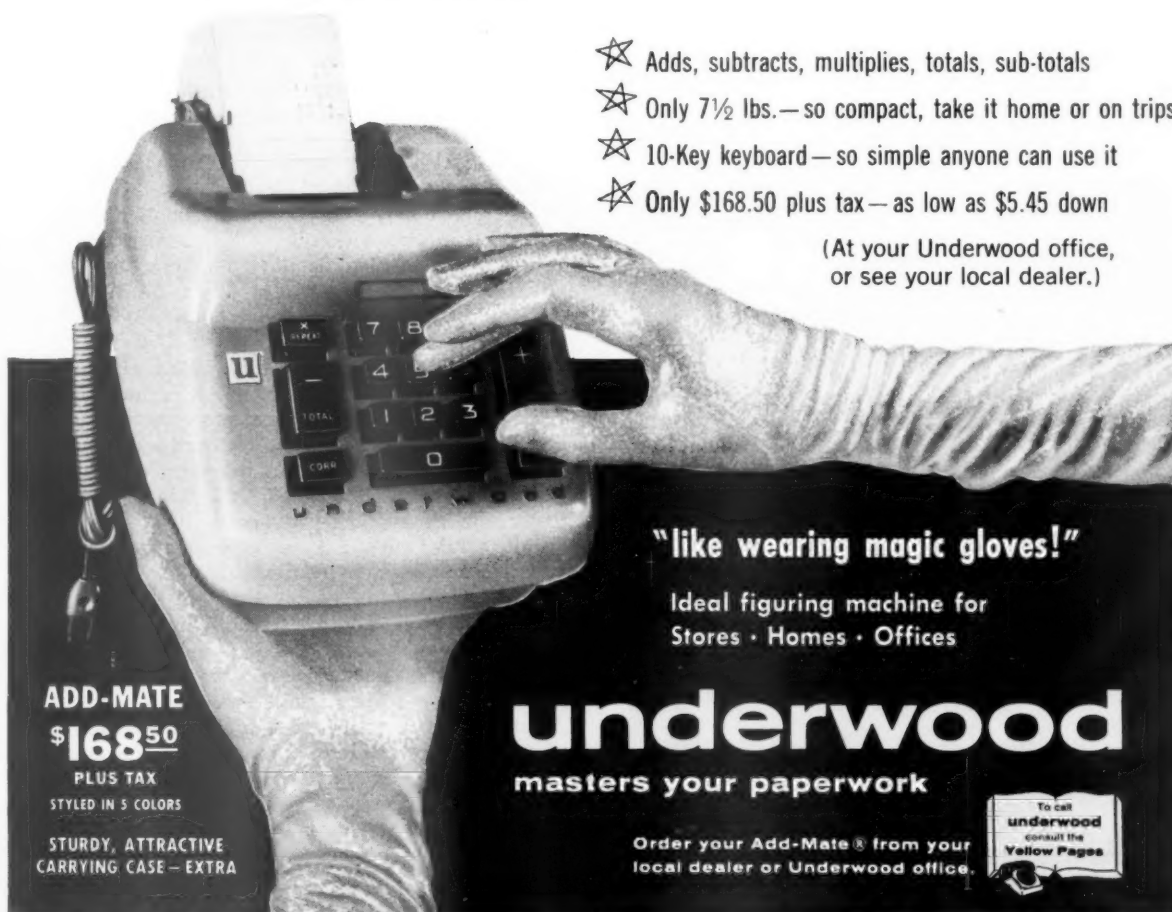
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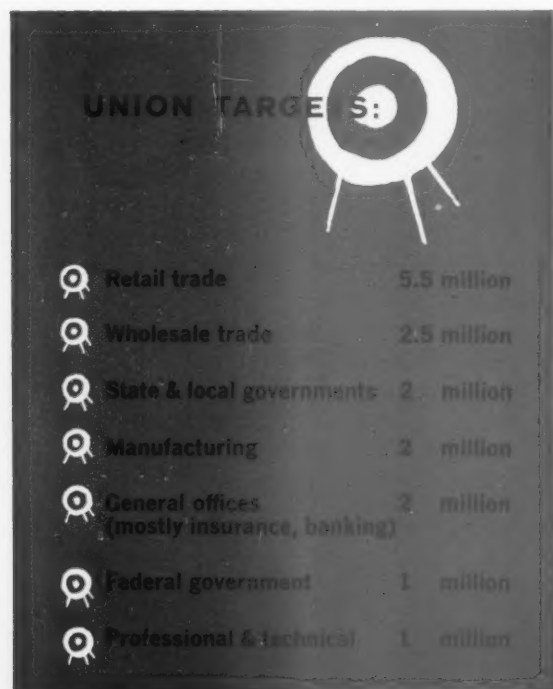
HERE COMES UNION DRIVE ON OFFICE WORKERS

Employers take these steps
to cope with new labor plans

UNION LABOR is ready to throw new resources and manpower into a drive to organize white-collar workers.

Unlike sporadic efforts made or talked about in the past, this is to be an all-out campaign using new techniques and appeals, supported by a broadened public relations program already under way.

The attack will be especially aimed at the groups that are shown below:



To cope with this drive, employers need to know the reasons behind it and some of the techniques that forward-looking companies are already preparing to use to combat it. The stakes are high.

For unions, a breakthrough among white-collar workers would minimize the serious threat to union power and influence posed by the increasing number and importance of these workers in the changing labor force. (See "New Problems Change Unions' Future," NATION'S BUSINESS, November.)

It would also mean increased union power, influence and revenue.

For employers, white-collar unionization means further union intervention in management, additional and more complicated employee relations problems, and increased strike potential.

Of the 16 million white-collar employees who are considered potential union members only some 3 million hold union cards today. The 13 million not in unions represent half the 26 million nonunion employees of all kinds who are considered organizable by John W. Livingston, AFL-CIO director of organization.

Mr. Livingston offers some additional facts to point up the absolute necessity for organized labor to make greater inroads into the white-collar field:

White-collar workers recently surpassed manual workers in numbers for the first time. The ratio is expected to increase to 60-40 by 1975.

Less than one fifth of the 18.5 million present union members are in the white-collar group.

The labor movement will rise or fall through its organizing efforts, Mr. Livingston says.

"Labor must continue to organize, must continue to bring new workers into its ranks, must continue to adjust its programs and techniques so as to be responsive to the needs and aspirations of the workers of America."

He believes white-collar workers offer the greatest

potential for new union members not merely because only 17 per cent of them are now in unions, but also because the white-collar worker is the industrial worker of the future.

"The office, the store, the bank, and even the factory are becoming increasingly white-collar mass production enterprises," he says.

Employment statistics divide white-collar workers into three categories: clerical, the largest, with about 9 million; professional and technical, with about 7 million, and sales, with about 4 million. Some 4 million of these are not considered potential unionists because they are in management.

Making unionization efforts among office workers difficult is the fact that they are usually dispersed in such small groups that the return in union membership often isn't worth the time and cost of signing them.

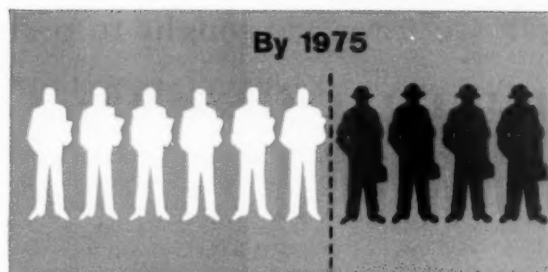
Mr. Livingston points out, however, that there are many large groups of white-collar workers in centers of union concentration which should present fewer organizing problems.

Many industrial plants employ hundreds, some employ thousands, of office workers.

More than 100,000 bank employees are in groups of at least 500. One fourth of the 700,000 employees in the insurance industry are concentrated in some 175 units of 500 or more.

Individual unions active in the white-collar field are optimistic about gains they expect to make this year.

J. Howard Hicks, secretary-treasurer of the 60,000-member Office Employees International Union, told



60:40


ratio of white-collar to manual workers

NATION'S BUSINESS, "We anticipate a sizable special effort to organize white-collar workers this year and are redoubling our own efforts. Based on recent performance, the outlook is bright.

"We see no factors that would contribute to a decline in union interest among white-collar people. In fact, interest has accelerated. White-collar workers are rapidly awakening to the need for a union.

"Partly this follows the trend in Europe where white-collar unions are very strong. Part of it is a recognition among white-collar workers of what blue-collar workers have achieved through unions and a growing awareness that they must take similar group action.

"The time is coming when white-collar workers uni-



UNION OBJECTIVES:

- Break down "myth" of white-collar supremacy
- Show that differences that existed between white-collar and shop workers are gone
- Sell idea that unions want companies to succeed as much as office employees do

More laws are sought to permit public employees to become members of unions

versally will be organized as well as or better than the blue-collar trades."

James A. Suffridge, president of the 325,000-member Retail Clerks International Association, says his union is "organizing from hell to breakfast" and predicts that gains this year will exceed those made in each of the years since 1944, when the union had 70,000 members.

Mr. Suffridge estimates about 1.5 million retail clerks are still organizable. One of the main targets: national retail chains. The union's national chain-store committee discussed organizing plans in Miami Beach, Fla., last month.

Among government employees, the American Federation of State, County and Municipal Employees is pressing in state legislatures this year for legislation recognizing the right of state and city employees to join unions. Arnold S. Zander, head of the union of 200,000 members, says this right is recognized in most states, but the union wants it spelled out in state law.

Mr. Zander, who has a doctor's degree in public administration and a master's in city planning, says this has been done by legislation in Massachusetts, Minnesota, and Rhode Island, and by executive order of the governor in New York, Pennsylvania and Washington and of the mayor in New York City.

Significantly, one objective of this union is repeal or amendment of state laws forbidding strikes by public employees.

The union represents law enforcement officers, including prison guards, but its charters to locals representing these groups specify that they may not strike.

Attention was focused on the problems that might arise from unionization and possible strike action by law enforcement personnel when the Teamsters' Union threatened to picket New York City police stations in an organizing attempt.

Although state and local governments employ more than 5 million white-collar workers, AFSCME fixes its practical organizing potential at 1.5 million, thus making allowance for part-time, managerial and other employees who can't be organized, as well as for teachers, firemen and

skilled crafts who have their own separate unions.

In industrial plants, most of the organizing in offices is done by the union representing the production, maintenance and often the plant clerical workers. This pattern has proved to be more successful for several reasons:

The production union is already on the scene and recognized by the employers; the office help is familiar with the union and what it may have done for the shop workers; union members in the shop have friends and relatives in the office; the shop union usually has the finances and manpower for an effective organizing drive.

The United Steelworkers, United Auto Workers and International Union of Electrical Workers are most active among production worker unions in organizing offices.

The steel workers have probably made the most progress. Their contracts with many steel and fabricating companies cover office help at the mills and plants. Even so, they are reported to represent only about 45,000 or 20 per cent of the clerical personnel.

The union plans to make an issue of white-collar unionization in basic steel negotiations this year.

Less penetration has been made in the automobile industry. The only major automobile company having a labor contract covering a large number of office workers is Chrysler Corporation. The contract—with the United Auto Workers—is largely inherited. Chrysler acquired a parts company with a unionized office force.

Unionization spread to white-collar groups in other Chrysler operations, with the result that last fall the automobile industry had its first major strike of office employees at Chrysler. Through picketing, which kept out production workers, and the lack of white-collar services, the week-long strike shut down production effectively.

Organizing objectives, problems, plans, strategy and techniques were discussed at two AFL-CIO meetings in Washington last month.

One was a two-day closed session of the AFL-CIO's 175-man organizing staff with the men who direct

the organizing activities of the 138 affiliated unions. The AFL-CIO staff's usual role in organizing is to help the individual unions achieve their objectives, rather than try to unionize workers on its own.

The other was an open conference, sponsored by the Industrial Union Department, on "Labor and Science in a Changing World." At one conference session a panel of officials who have been active in white-collar organizing for five unions discussed meeting needs of scientific and professional employees.

Confidence of the AFL-CIO is fed by the recollection that, with only 3 million members in the early '30's, it found the resources and manpower to organize the steel, automobile, electrical and other major industries.

It expects to have as much, if not more, success today, what with labor's resources increased in dollars and members and the "forces of resistance" reduced through previous successes in organization.

Union leaders view these as problems of white-collar workers to which unions will offer solution:

- Salary inequities.
- Unfairness in promotions.
- Lower pay for women.
- Consideration of seniority in promotions and layoffs.
- Procedures for taking up grievances.
- Lack of job security.
- Threat of unemployment from automation.

Loss of status because shop workers have acquired paid vacations, health insurance and other employee benefits previously associated with the white-collar group.

The objective of unions is to: Break down the "myth" of white-collar supremacy in prestige, status and social acceptability.

Increase educational activity intended to show that the differences between white-collar and shop workers have been eroded, and that both groups have the same problems, the same needs, and the same community of interest.

Sell the idea that unions, too, want companies to succeed (since research shows that white-collar workers generally are interested in the success of their employer).

These are some of the special techniques union organizers will utilize to woo white-collar workers:

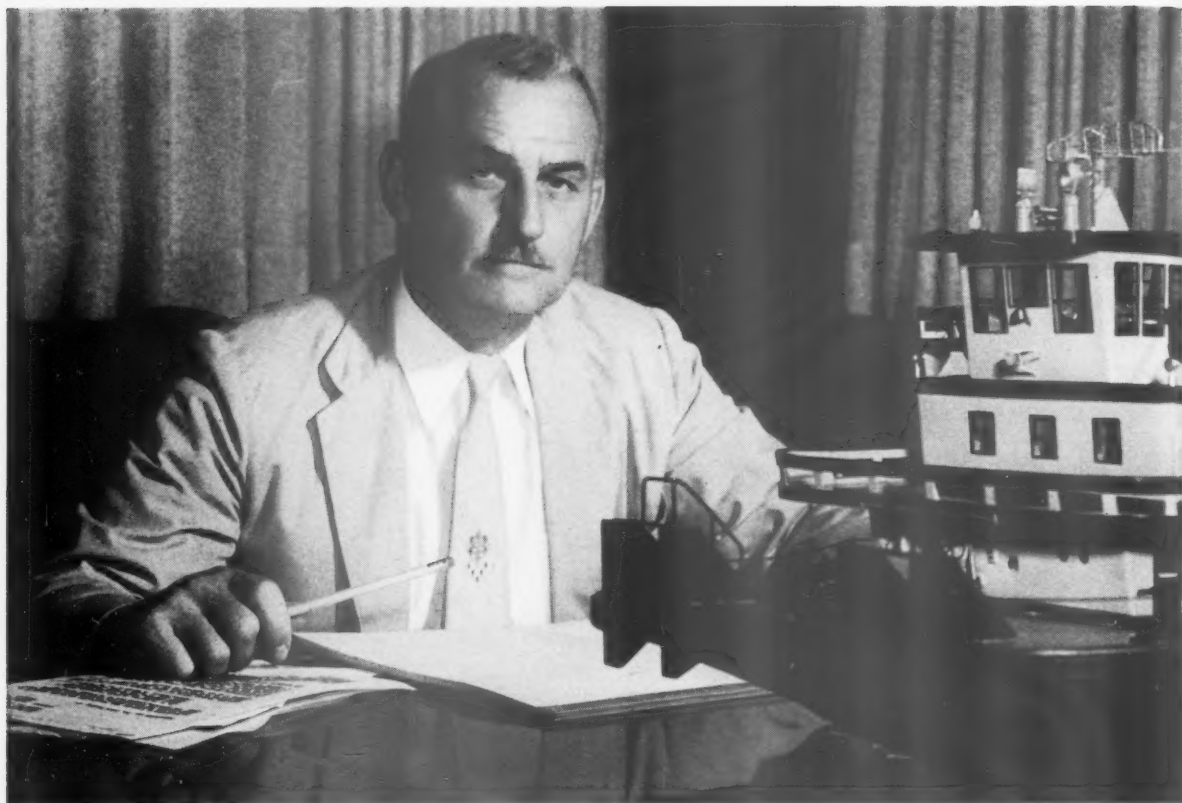
- ▶ Hand pick and carefully train organizers.
- ▶ Use more women as organizers (since most white-collar workers are women).
- ▶ Utilize younger union members



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OFFICE WORKERS

continued

with a lot of vitality as organizers. (In Chicago, a White-Collar Workers' Service Committee of young organizers was formed in a drive on 1,400 office workers.)

► Concentrate on the personal approach, calling on the white-collar worker at his home, writing personal letters and making phone calls (rather than resorting to handbills, sound trucks and mass meetings).

► Concentrate efforts on a small group of white-collar workers where there is a good chance of succeeding, then use this small union group as a beachhead for expansion.

► Use sales techniques, selling older employees on the advantages of seniority protection and pensions, and younger workers on higher pay.

► Where community attitudes are opposed to unionization, utilize techniques for influencing community opinion.

► Where laws hamper organizing efforts, get them changed.

► Resort to what is called "anticipatory retaliation." That is, catalog the techniques the employer will use to discourage unionization and plan a union program to overcome them.

The AFL-CIO leaders believe that greater public acceptance of unionism will help break down white-collar resistance to labor unions. This is one of the reasons the AFL-CIO has broadened its public relations program and increased expenditures from \$750,000 to \$1.2 million a year.

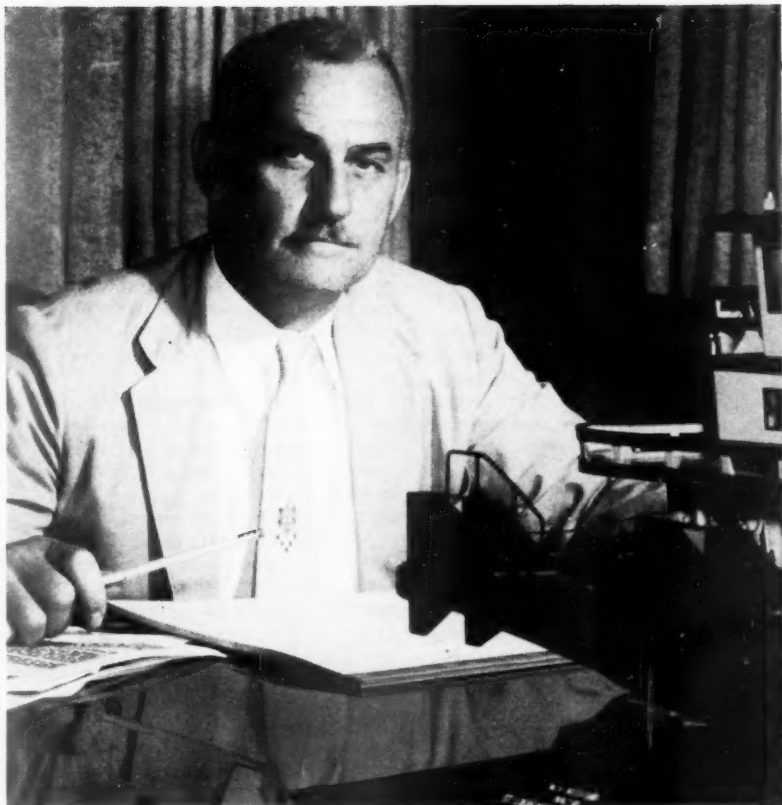
"You can't organize the office workers as you do the foundry workers," says Walter P. Reuther, AFL-CIO vice president and head of the United Automobile Workers. "New approaches and new techniques must be developed."

"You cannot separate unorganized workers and their attitudes from the attitude that prevails with the public in general. A broad public relations program must try to improve and cultivate the climates in which we will carry forward our organizational work."

"I believe this is required not only to reach the unorganized but also to get the union message to millions of people who are now organized."

Lois McKinstry of the Retail Clerks International Association points out that white-collar workers react more as the general public reacts than do other workers, and that, to reach them, you must reach the general public.

Until recently the AFL-CIO relied



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OFFICE WORKERS

continued

largely on radio to reach mass audiences. The new public relations program includes more television and movies, a speakers' bureau, college scholarships, wider distribution of union literature, and more indoctrination of educators and opinion leaders.

Here are its major parts:

Radio: Fifteen-minute weekday network news broadcasts by Edward P. Morgan and John W. Vandercook over 200 stations. The broadcasts carry an AFL-CIO commercial, but are supposed to give straight news. Apparently editors of union newspapers find enough labor slant or opinion in them to warrant publishing excerpts days and weeks later.

On summer week-ends, four five-minute news broadcasts are sponsored over a network of 300 stations to reach the "audience on wheels."

A 15-minute interview program, "As We See It," produced by AFL-CIO, is broadcast weekly by a radio network as a public service.

When Congress is in session, AFL-CIO's Harry Flannery, former CBS correspondent, interviews a Democratic and Republican member jointly on a timely issue. The

15-minute interview is recorded and offered to radio stations for broadcast as a public service. Last year 167 stations broadcast the interviews; more than 200 have agreed to broadcast them during this session of Congress.

Television: AFL-CIO produces a 15-minute weekly TV broadcast, "Americans at Work," which it offers to TV stations for showing as a public service. The program, showing union members in various occupations, was picked up by 100 TV stations within two weeks after it was offered.

The program's message: No matter how good a machine may be, it takes a person to operate it, to make it and to buy its products; men and machines, working together, produce the might of America.

Movies: AFL-CIO paid the \$25,000 cost of producing a movie the U. S. Treasury Department will use in promoting its 1959 Savings Bond Drive. The film opens with an introduction by AFL-CIO President George Meany.

An AFL-CIO movie against right-to-work laws helped defeat right-to-work referendums in five of the six states where the issue was on the ballot last fall.

Speakers' Bureau: The AFL-CIO maintains a list of former organizers and staff personnel of affiliated un-

ions who are available to fill requests from colleges and other organizations for speakers. The AFL-CIO pays the speaker's expenses and no fees or honorariums are accepted. The bureau is directed by Tilford E. Dudley, who has had considerable political experience as a top staff man for the CIO Political Action Committee and its successor, AFL-CIO Committee on Political Education.

College Scholarships: Six scholarships of \$1,500 a year for four years are being awarded on a merit basis to children of union members. They are being handled by the AFL-CIO Education Department. Scholarships are awarded on the basis of tests given by the Merit Scholarship Association.

Literature: Union material is being more widely distributed to the clergy, educators and other opinion leaders; to legislators and public officials, to schools, colleges, libraries and many organizations which influence public opinion.

Four thousand copies of a pamphlet purporting to show wide differences among the states in provisions for workmen's compensation were sent to members of Congress and state legislatures.

A new AFL-CIO book on state and local taxes is going to state governors, legislators, tax commissioners,

Law and rulings affecting white-collar unionization

HERE IS HOW the Taft-Hartley labor law and rulings apply to unionization of white-collar workers:

Supervisors—They are exempt. Employers may not be forced to bargain collectively with supervisors.

The defeated Kennedy-Ives labor bill, which Congress is taking up again this year, would change the definition of a supervisor so as to reduce the number of employees in supervisory positions who would be exempt and increase the potential for unionization.

Managerial employees—The National Labor Relations Board will

exclude from a union group those employees in executive positions who have authority to formulate and carry out management policies or to pledge the employer's credit.

Professional employees—They may not be forced into a bargaining group that includes nonprofessional employees unless a majority of the professional employees vote to be included in such a mixed group.

Confidential employees—The La-

bor Board will exclude from collective bargaining those secretaries, clerks, typists and other employees who act in a confidential capacity to top management officials handling labor relations.

Office clerks—Office clerical employees usually will be placed in a bargaining unit separate from plant clerical and production employees.

Technical employees—The Labor Board usually will permit them to bargain as a separate group if they wish.

city and county officials, and libraries. A book containing detailed arguments against right-to-work laws was sent to every library in the six right-to-work battle states last fall. An accompanying letter suggested it would be helpful in answering questions from voters seeking information on the issue.

Unions and union leaders are invited to send in names of opinion leaders and others they believe should receive AFL-CIO literature. This program is handled by a woman with experience on the COPE staff, Mildred Walker.

Seminars: The AFL-CIO is now holding a number of week-long economic seminars for college professors, directed by Research Director Stanley H. Ruttenberg.

The labor organization will assume all costs, without obligation, including travel and housing for invited professors. While not direct public relations, the seminars fit into the program of painting a better portrait of the labor movement.

Albert J. Zack, publicity director, explains, "Economics is being taught in an atmosphere charged with propaganda. We suggested the seminars so that the professors could examine our economic arguments. If they can't stand up against cross-examination, then they're not worth much."

About the effectiveness of the developing public relations, Mr. Zack says, "It is hard to measure. We know this, however: During the third quarter of 1958 we won 68 per cent of our elections for union representation. That is more than we have won in a long time."

Employers are engaging in research of their own relating to white-collar workers and unions, particularly to find out why office employees join unions and what can be done to satisfy their needs so that they will not want to join.

Common irritants or reasons office workers give for joining unions are:

- ▶ Poor placement.
- ▶ Poor relationship with the boss.
- ▶ Poor salary administration.
- ▶ Ineffective communication.
- ▶ Poor working conditions.
- ▶ Lack of individual recognition.
- ▶ Poor handling of complaints.
- ▶ Lack of job security.

It is considered a serious mistake, however, to make heading off unionization the only reason for trying to solve personnel problems in the office.

The way to prevent unionization, one company cautions its management personnel, is to do those things

*"Trial-and-error digging
is a dog's life"*



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For less unionization, companies should be active for better personnel relations

that the company should be doing anyway in order to have loyal and efficient salaried employees.

To do this, the company gives continuing attention to every phase of personnel activity. This is what it tries to do in six vital areas:

Selection and placement: Work for improvement through training programs for interviewers, greater attention to college recruiting, research studies of job requirements, and improving methods of selecting supervisors.

Relations between supervisors and employees: Train supervisors on how to discuss performance with employees under them and give them status in the form of office facilities, privileges and authority.

Personnel policies and benefit plans: See that policies and benefits are fairly administered, effectively communicated, and clearly understood. Only then will good policies and benefits be appreciated.

Salary administration: Correct inequities, so that each employee is properly paid in relation to his responsibilities and performance. Preparation of a scatter-chart on the salary distribution of persons performing the same job, can be helpful in locating cases requiring special attention. Sample chart is below:

Working conditions: Make a periodic check of working conditions. It is good insurance against low morale, inefficiency and even union leanings. Correct or explain the cause of any complaints made to supervisors.

Development of employees: Make more effective use of job experience, formal training, and outside training as development tools. Job experience offers the most fertile possibilities through better coaching and counseling and considering potential for advancement when filling openings and when making lateral transfers.

The Ford Motor Company has developed an intensive program for increasing the job satisfaction of its white-collar employees as one part of Ford's industrial relations program. In part, it is built around an employee attitude survey, which Karlton W. Pierce, head of Ford's industrial relations analysis department, believes is more effective than other methods commonly used for trying to determine what white-collar workers want.

Determining what office workers want is the first step toward trying to satisfy them. Here are some of the methods most commonly used, with Mr. Pierce's views:

1. Face-to-face communication be-

tween the white-collar worker and his immediate supervisor. This is the best approach if it can be used as effectively in practice as it appears in theory. Some difficulties: Supervisor may not be well informed on company policies; difficulty in centralizing employee viewpoints for study; employee hesitancy to complain directly to supervisor.

2. Face-to-face communication between employee and industrial relations representative. This reduces some of the problems mentioned in the first approach, but adds a new one. It encourages bypassing of immediate supervisor.

3. Use of company publications. Because they are primarily company tools for speaking to, rather than listening to employees, company publications should not be considered effective for two-way communication.

4. Employee suggestion programs. They are usually designed to get ideas for improving operations and have little value to an employee who may want to complain of unfair treatment by his supervisor.

5. Empathy approach—trying to put oneself in the place of the white-collar worker.

This method, at best, only provides an educated guess as to how the employees feel about their jobs.

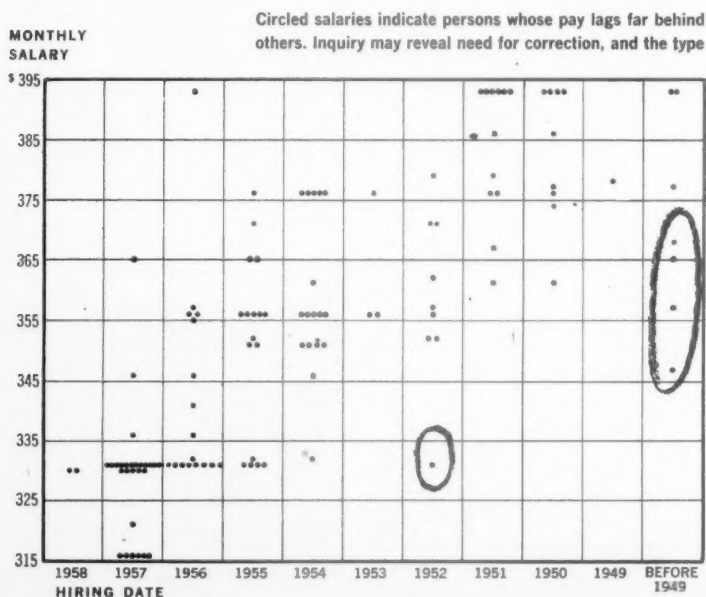
The employee attitude survey cannot completely replace these approaches, but Mr. Pierce says Ford is able, through it, to get information it has not been able to get any other way.

The attitude survey cannot be used superficially and is of little value in trying to determine general morale, he warns. It is designed to determine what the employee thinks about his job, his company and its policies; whether he believes those policies are being carried out effectively, and what he thinks about his immediate supervisor and department manager.

"In essence," says Mr. Pierce, "the attitude survey covers the entire area of job satisfaction, but it is compartmentalized so that specific trouble spots for specific departments will stand out in bold relief."

Although the survey may have limitations, Ford management believes it is an excellent device for upward communication and that it provides an effective means of determining the needs and desires of employees. Employees are asked to answer 35 basic questions regarding how they feel about the company and their jobs.

Once the wants or desires of



white-collar employees are identified, constructive action must be taken to fulfill them.

The type of action will usually depend on the problem.

While policies and programs cannot be changed indiscriminately based on the whims of employees, says Thomas A. Beaver, manager of Ford's salaried personnel department, "Nevertheless, if the comments by employees point up real inadequacies, constructive action should be taken."

This action is usually taken through the supervisor, not around him.

To assure that the policies are being carried out, Ford utilizes a self-audit form, which includes a checklist of 73 supervisory responsibilities against which the supervisor can check himself.

Mr. Pierce says a key man in whether white-collar workers are satisfied is the individual supervisor. He must deal fairly with the employees, letting them feel they are part of management, because white-collar people want to be identified as management.

Mr. Pierce says that white-collar workers, by their makeup and by choice, are interested in the success of their company, are loyal, want to do a good job and want to take on increased responsibility. It is management's fault if it does not bring out their best efforts.

Ford surveys reveal these wants of white-collar employees in terms of monetary and nonmonetary recognition (not in order of importance):

Monetary

Good pay and fringe benefits.
Fairness in pay and merit increases.

Monetary and nonmonetary

Opportunity for promotions and fairness in being considered.

Full utilization of skills, ability and experience.

Nonmonetary

Recognition of the individual's work as important to company success.

Over-all fairness of treatment by supervisor.

Supervisors motivated by principle, not expediency.

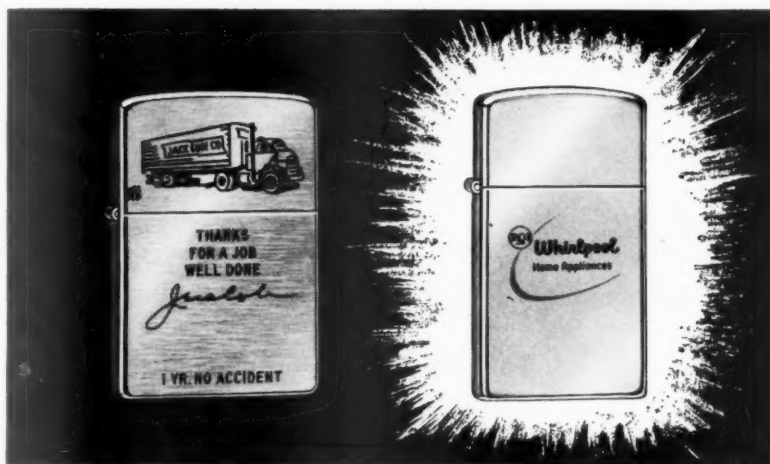
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Job security.

Good physical working conditions.
Information on new developments.

Training programs.

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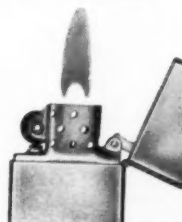
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MAKE-JOBS PLAN *continued from page 43*

Local efforts are more likely to find and cure the real cause of joblessness

pressed areas, this would appear to these communities to commit the federal responsibility to insure local jobs."

3. If a federal depressed areas program is launched, it will inevitably grow.

"Pressures to extend aid on looser terms will be difficult to withstand," Mr. McDonnell declared. "More money will be asked. More areas would seek help. It would be easy, and seem plausible, to extend the definition of area to entire states, or regions, or even to industries such as agriculture. More programs would be requested."

4. A federal aid program could easily lead to subsidizing inefficiency and make-work devices.

5. If an area is chronically depressed, there must be reason—and the causes must be dealt with.

"Responsible state or local effort," said Mr. McDonnell, "is more likely to discover the local reasons for the trouble and set in motion practices and policies which will remove them."

Analysis shows that even some of the hardest hit labor surplus areas have been able to improve or regain their economic health without federal doctoring. The Massachusetts textile city of Lawrence is an example. For years the Labor Department classified it as the Number One distressed area. It had lost many of its key plants. Joblessness was rife. Groups and individuals from that community sought federal and state aid. None was forthcoming. Then, the people of Lawrence organized to redevelop their own resources; to retrain workers and to attract new industry. Result: Lawrence has substantially reduced the number of its jobless citizens.

In Lawrence's case, as in many others, the flight or decline of a single industry caused the unemployment problem. In other instances, the cause has been technological obsolescence, which has taken workers long established in a particular craft or skill out of the labor market.

Opponents of federal aid contend that, when such situations arise, it is sounder for affected workers to seek retraining than to expect government to keep outmoded jobs or industries alive.

Salida, Colo., provides another example. For three years it suffered chronic unemployment. Its railroad shops were closed, its mines shut down, its agriculture caught in a general slump.

Instead of appealing for federal aid, Salida's businessmen went out to lure new business and industry to the town. A complete inventory of the natural resources and industrial possibilities of Salida was made. Special sales literature was prepared. In less than three years the unemployment crisis in Salida was corrected.

A further criticism of the federal aid concept is that it would tend

FUEL

FOR THE FIRE?

Curbs for rising prices will inspire much debate on Capitol Hill this year. But according to the outlook

"Congress is ready to feed inflation"

See page 33

only to preserve depressed communities at their existing level of economic activity. It would provide a crutch, but not a cure.

"Stagnation and an unhealthy business climate," a recent U. S. Chamber of Commerce newsletter comments, "cannot be cured with a one-shot pill in the form of federal financial aid. The problems of depressed areas range widely with a complete examination necessary before treatment. Giving away money to a depressed community... is a little like prescribing aspirin for

headache, broken leg, concussion and shock."

The machinery essential to rebuilding depressed areas is already available—without federal financial assistance. It exists, the critics of federal aid say, in the more than 4,000 community development commissions already working on problems of industrial redevelopment, in some 30 privately financed statewide credit corporations now operating or being organized; in industrial development activities of railroads, public utilities, and other private businesses, and in the half dozen or so federal programs already in existence and designed to assist areas of labor surplus.

Among the federal programs now functioning are:

1. Rapid tax amortization privileges for defense-related facilities constructed in labor surplus areas.

2. Portions of government defense contracts may be set aside for negotiation with firms in labor surplus areas only.

3. Preferential treatment is granted to labor surplus area firms under the Buy American Act.

4. The Small Business Administration gives priority and special consideration to loan applications from firms in labor surplus areas.

5. The new Small Business Investment Agency (created by the last Congress) has authority to make loans to local and state development companies. Since this program is young and has had no chance to show what it can do, the wisdom of the federal government embarking at this time on an even bigger venture in loans and grants seems questionable. As some observers have noted, a new program might duplicate the work of SBIA.

Another form of assistance now available is that offered by the U. S. Commerce Department's Office of Area Development. OAD provides technical advice, conducts special surveys of the industrial potential of depressed areas, coordinates the activities of other federal agencies, and encourages employers to consider labor surplus areas when seeking new plant locations.

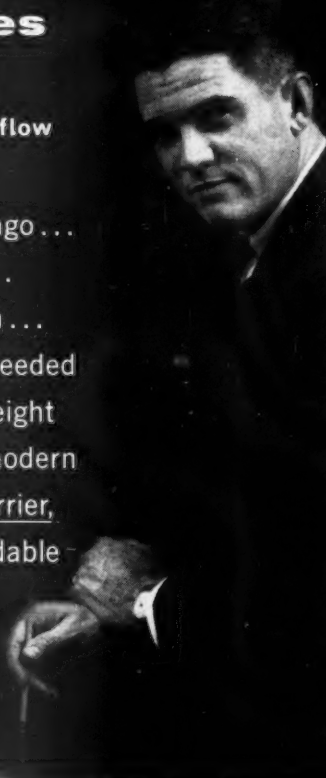
The work of OAD is close to the spirit of local action advocated by such groups as the U. S. Chamber. The first step toward bringing a local economy out of the doldrums is to determine what industries can succeed in the area and what changes must be made to attract them. It is this kind of job that local chambers of commerce, as well as private development groups, can do, when the effort is properly organ-

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MAKE-JOBS PLAN GETS NEW LIFE *continued*

Local surveys of area potentials are sound first step for depressed areas

ized and has vigorous local support. Local and state-level development credit corporations can play an important constructive role.

In the depressed areas issue Americans face a problem not unlike that posed by the continuing rapid growth of urban centers (see "How to Build Tomorrow's City," NATION'S BUSINESS, January, 1959). In both instances, the potential for a local solution exists if sufficient planning and effort are applied. In both instances an inventory of local assets and liabilities is the first step. If a community finds that it is suffering the effects of resource exhaustion (as in some mining communities) it should look for other industries it might develop and in which it might place its displaced workers, perhaps after retraining.

Even if a community were to get a large grant or loan from the federal government, this would not insure or guarantee its revival, since

no one can guarantee security in a flexible private economy. Federal aid might, however, make the community's residents regard Washington as a caretaker with responsibility for keeping workers permanently off the unemployment rolls.

Beyond this, there are other questions to be considered: Would massive federal financial assistance not involve serious additions to the growing federal budget, thus intensifying inflationary pressures? Would not a large-scale program of federal intrusion into localized problems of unemployment upset the balance of the free-market economy by transferring jobs from one area to another through tax-financed federal subsidies? Is the concept of large-scale federal intervention in depressed areas not likely to lead to an ever growing governmental role in the nation's over-all economic life? Critics of the federal aid concept raise these and other disturbing questions.

Tacked on to proposals which the new Congress will debate is a provision for including certain low-income rural areas in the list of beneficiaries of federal grants or loans. Such a rider would seem to duplicate rural area assistance programs now administered by the U. S. Department of Agriculture. The inclusion of the low-income rural areas in the depressed areas proposals apparently is intended as a sop to congressmen in whose districts there are rural low-income areas.

The current legislative concern over federal aid for depressed areas is another in a growing number of issues involving a reliance on Washington and Treasury funds to solve what are essentially local problems. The magnetism of Washington as a source of direction, subsidy and problem-solving has risen steadily in recent years. To confirmed believers in the traditional American principle of local initiative, local responsibility and localized problem-solving the trend is alarming and, at times, mystifying. Thus the depressed areas fight is only one phase of a broader struggle. The outcome of this bigger fight is as yet undetermined, but action in Congress in the weeks and months ahead may well decide it.

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THESE METHODS STRENGTHEN GROUP LEADERSHIP

Power jockeys, deflators, other types, make meetings unproductive unless you know how to handle them

EVERY EXECUTIVE spends much of every working day telling other people what he wants done. Serious students of business communications agree that the bulk of a company's problems arise because this telling isn't as effective as it should be.

In smaller groups, the executive, functioning as the leader, can usually apply standard and generally known leadership techniques to make sure of understanding and true communication. However, even the most skilled meeting leader begins to experience control troubles when his group gets above 15 to 20 members. If you ever face the problem of communicating with such a group, you may be able to borrow some of the practices and techniques of group dynamics to make sure your message will get through.

Briefly defined, group dynamics is the art of giving an active life to a group. The objective is to encourage the individual members to participate. Individuals in the group learn what you want them to learn because they are brought into the act of learning; they do what needs to be done because they plan the doing.

Uses and applications of group dynamics are based on some still nonscientific, but nevertheless generally accepted, characteristics of group behavior:

- ▶ What happens to the individual as a member of the group.
- ▶ The group personality.
- ▶ The pressures within a group.
- ▶ Dynamic techniques and methods.
- ▶ The role of the leader.

For purposes of examination, we'll assume a group of 20 or more—small enough to be a fairly common business experience, and large enough to make usual discussion leadership techniques difficult.

The individual in a group

No two people ever join a group for exactly the same reasons. In a business conference, each person present will have varying degrees of motivation and interest. Some will be staunch proponents of either the pro or the con of the subject; others will be present as resource people, invited to contribute their experience or specialized knowledge, but otherwise not concerned with any action taken or decision made.

Still others will be there because they were ordered to attend.

Specific types of individuals who can be anticipated will include:

The power jockey. This type has a hidden agenda in any meeting: He is seeking to build his own personal power or prestige. He gives himself away by frequent stubborn attacks on other members, or their ideas or reasons which have nothing to do with the main issue.

The deflator. This individual may be an incipient power jockey or he may be supporting a jockey. His trouble-making usually takes the form of an attack intended to deflate and reduce the prestige of another member.

The loyal outsider. This man is usually a willing and helpful member of the group. Nevertheless, as a loyal representative of an outside organization or department, he suffers from divided loyalty. He wants to help the group, yet he feels he must resist any attempt to blame, examine, or involve his parent group in any way. He can usually be spotted by an appearance of confusion, irritation, or stubbornness when



The Power Jockey



The All-Wise

the discussion gets close to his primary-group interests. Other times, he will be most cooperative.

The all-wise. This is the member who comes to a meeting with a problem solution already decided. The all-wise is usually intelligent enough to realize that a premature revelation of his solution will not sit well with other members because of the implication that he is smarter than the group. So he waits until he judges the time to be ripe for a solution suggestion. Meanwhile, his mind is pretty well closed to any other solution or suggestion.

The withholder. Either lack of confidence or mental laziness can be the root of his trouble. He may hold back an honest opinion because of a fear that someone will disapprove. Or he may come to the meeting with a determination that this is not his problem, and someone else can do the work.

These individuals, of course, are seldom met in a pure state in any group. Furthermore, in a large group, the leader cannot usually attend to each person as an individual—he must deal with a composite of all of them. Fortunately, a kind of law of averages comes into play to help him on this.

The group personality

Whenever people are mixed together, a group personality takes over. This personality is real and sufficiently distinctive that a skilled observer can analyze it for any given group. This personality consists of all the factors that make up all the individual personalities present in the group, intensified or modified in direct relationship to how many times each of those individual factors appears in the group. A group made up of predominant extroverts would tend to have a sharply extroverted personality. One made up of predominantly hostile or suspicious individuals would be most disagreeably hostile.

If you are selecting the group yourself, you can balance the individual personalities to provide a group personality that will have the best opportunity to solve the particular problem you intend to have it at-

tack. An effective use of groups depends, however, on how well the leader can pull the various personalities and interests together and integrate them into a whole.

Pressures within a group

The ills that beset a group, once it begins to function as a group, can be oversimplified by considering some of the characteristics of a family. Though it may appear unified, there are always minor and almost continuous conflicts going on within the family group. Husbands attempt to influence their wives into certain lines of thinking or actions; wives attempt the same on their husbands. In attempting to guide their children, the parents frequently run head-on into conflicts of interest on the part of the children.

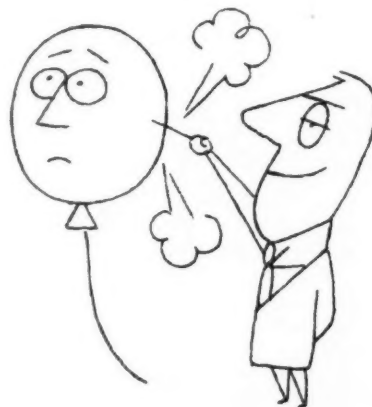
In attempting to accept parental guidance, the children often find themselves in a state of conflict with their own emotions and instincts.

Similar conflicts are present in adult groups. Here are some of the more common:

Confusion of purpose. Members of the group become dissatisfied or openly hostile in the process of group operation. There may be flights into endless discussion of petty or completely unrelated details. There may be endless arguments over points that a single individual could easily resolve later. These may indicate the group lacks clarity in its purpose.

This is usually the fault of the leader in not giving them suitable orientation as to why the group was called together, or in failing to impress on them the importance of their activity to the extent that they are motivated to undertake it to the exclusion of personal and more selfish interests.

Incompatible personalities. This conflict can arise between individuals or subgroups that may ordinarily work in perfect accord. For example, a normal boss and subordinate relationship may be a smooth, well coordinated team activity. But put them together into a larger work group and defensive conflicts arise. The boss feels he must demonstrate his position of authority; the subordinate is afraid to challenge that authority.



The Deflator

THESE METHODS STRENGTHEN GROUP LEADERSHIP *continued*

ty by publicly refuting it. The two most satisfactory cures for this particular ill are both preventive:

First, avoid the possibility of conflict by careful selection of the group members. Keep your group make-up on the same level—either all bosses or all subordinates.

Otherwise, plan your program in such a way that neither the boss nor the subordinate has to defend or challenge a normal relationship.

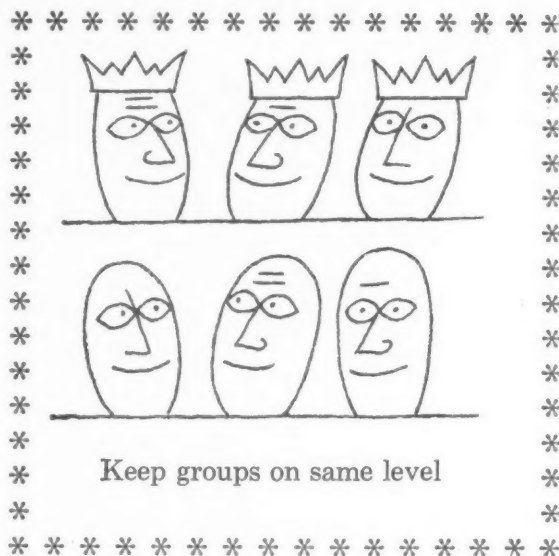
Leader hostility. In every case of group leadership, there is bound to be a certain mixed-emotion feeling. The group member wants to be independent and free-thinking. At the same time, he wants to be told what to do and be given guidance for the doing. This means that if the leader attempts too much to dominate the group, the result may be either passive resistance or outright revolt. On the other hand, if he avoids leading, the group may react with apathy and disintegration or—possibly worse—accept real leadership from a more positive member whose aims and objectives may in no way resemble those of the leader.

Dynamic techniques and methods

Probably the chief characteristic of a dynamic group is the use of various methods to get every member involved in the act of solving the problem, or of reasoning out and acquiring the information the meeting planner wants him to have. These may be generalized into three major types: optional resources, working methods, demonstrative devices and leadership aids.

Optional resources. These may be live in the sense of an available expert or specialist, or physical in the sense of data books, charts, maps, etc. The optional is important in that these are never forced on the group but must be asked for before they are used.

As an example, a company with a major sales problem recently invited a group of customer sales executives in as consultants. Company men were also present, but strictly on a "Speak when questioned, and only answer the direct question" basis. This permitted the consultants to get needed facts, figures,



and operating details, but did not let the company men prejudice or influence their thinking.

Working methods. These are the real tools of the group dynamic leader. They are designed to give every group member an equal opportunity to contribute and participate.

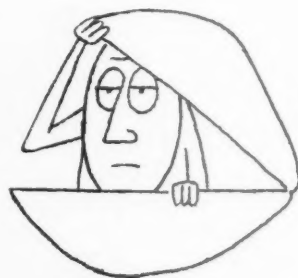
Here are the more popular:

1. Study groups. Used for examination and evaluation of a problem preparatory to group attack. This will work out best when the discussion is conducted on a "circular response" basis. The members are seated in a circle or other informal grouping and each comments in turn. It makes complete participation mandatory. Each member is expected to contribute some thought on the question or problem. It eliminates argument and refutation and assumes that persons who have something to contribute are capable of cooperative discussion.

2. Buzz sessions. Closely allied to the educational study group, with two modifications: The buzz group usually works toward a stated objective, and has a limited time in which to reach that objective. This may be a group recommendation, or group opinion, or a group analysis of a problem or situation. The time limit may be as brief as five minutes, or as long as 20 minutes or more. The chairman is responsible for seeing that the members reach their objective within the time allowed.

In actual practice, buzz groups are usually subdivisions of larger groups. Each buzz group has five or six members, one of whom is appointed chairman by the group itself. After a buzz period, the chairmen report their group's conclusions to the main-group membership as a whole.

3. Brainstorming. This should be used primarily when what is wanted is a quantity of alternative ideas or tentative solutions. Chief characteristic of the brainstorm session is that criticism of any idea is out. The time is spent thinking up one idea after another,



The Withholder

as fast as they can be recorded. Later, the ideas are screened and evaluated.

4. Slip technique. This permits limited participation with large audiences where time or facilities are not favorable to breaking the group into more workable subgroups. The slips are simply small slips of paper distributed to all members to be used in writing down individual ideas, questions, opinions, etc., related to the subject. The slips are turned over to the leader or an action committee. Although it does not allow for interaction of the group members, the slip technique is of value in dealing with large groups.

Another method for getting limited participation is by the use of either a panel discussion, or symposium, followed by a question-and-answer exchange with the audience. If the audience is too large for easy exchange of questions and answers, the slip technique can be used, with the panel moderator selecting questions to feed to the experts for answer.

In practice, the leader may use any one of these, or a combination of several, depending on how he has previously analyzed his problem. In each case, it may be necessary to explain or even demonstrate the method in detail so the group members will know what is wanted and what to expect.

Generally speaking, the most satisfactory of these devices are the small subgroups because they give everybody an opportunity to participate.

5. Demonstration devices and aids to leadership. Demonstration devices include such helps as charts, slide presentations, movies, blackboard demonstrations, props, models, and even magic tricks. The purpose is to help members understand the problem, or some obscure phase of the problem, or simply to broaden their background. Well planned, they can be used to clarify points in advance or to stimulate early group participation by getting the individual members to thinking ahead of time.

Leadership aids generally reflect those used in conventional conference leadership: the occasional summary, the probing question with a purpose, the device of making a statement with which every member of the group can agree to gain their support and friendship; or the reverse, to make a controversial or antagonistic statement to excite interest. The leader who is aiming for total group participation, however, will keep in mind that he is trying to motivate people to work with him. He must also be careful to impress upon his group that he really wants their contributions. Conference studies indicate that if an individual knows he is going to have the opportunity to contribute, he will then want to contribute.

Once the leader has his group under way, probably his most versatile aid becomes the well phrased question. It is, of course, necessary that the questions be asked in such a way as to place maximum responsibility on the group to reply. If possible, they should be phrased to show that the leader is not only accepting members of the group as individuals, but is also confident they will come up with the answers.

The role of the leader

When the American Management Association surveyed top executives on reasons for inefficient

meetings, it found poor leadership getting most of the blame. The specifics included such factors as lack of a clear-cut objective, meeting called at the wrong time, wrong person or persons included, failure to prepare necessary information, digressions, failure to summarize, unchecked repetitious argument, toleration of needless interruptions.

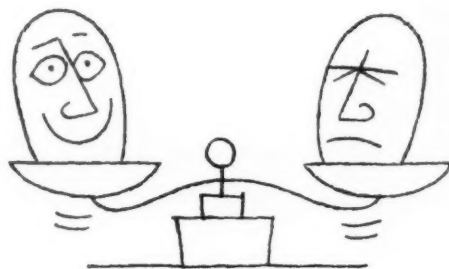
To aid in planning a meeting that will avoid these pitfalls, the leader would do well to use a pre-meeting checklist to answer such questions as these:

Considering the problem, what objective will be reasonable and relevant for this group?

What will the individual members expect of the group as a whole?

What can the members expect to get out of this meeting?

What resources will we need in the group to help us accomplish the objective?



Balance group personalities

Will they be available as the group is set up now?
How can these resources be most efficiently brought to bear on the problem?

What resistance or hostility might come into play?
How can these be turned to benefit?

Once the leader has thought through the answers to such questions, he is ready to plan his own part in the group meeting. He should keep in mind that the secret of success is to manage the actions of the group but to do this unobtrusively. In action, he will suggest, rather than force, the use of the procedures and techniques which might be of help. He will resist any inclination to play the expert.

He must somehow manage to stimulate, encourage, assist, and recognize the group contributions on the problem, and still keep them moving toward a goal.

Many group members will be slow to accept the leader's invitation to "express yourselves freely." This means that the leader must know his members. You can guide and direct people only on the basis of how much you know about them, their interests and feelings on a subject. The true leader motivates his group

THESE METHODS STRENGTHEN GROUP LEADERSHIP *continued*

into establishing an interested working relationship by use of friendship and mutual confidence based on his own respect for the members as individuals.

Leaders vary in personalities and temperaments just as the members of their groups do. Therefore, there are no hard and fast rules for exactly how the leader should operate. Since you are trying to be sincere and friendly, it is usually good to be somewhat informal in your approach to the group. Some leaders can comfortably perch on top of a desk or table at the front of the room. Others do not feel at ease unless they are on their feet. Still others, when addressing a large group, get some comfort out of having a lectern to lean upon. Therefore, any ideas for reducing formality in your meeting must be in harmony with what you can comfortably bring yourself to do.

Once your meeting is starting, there are some simple devices you can use to give both the group and

the leader can do is to encourage the group to take over as soon as possible.

Once the group makes its initial break into activity, members will begin to work at reducing the initial confusion of the broadly stated problem. Then the leader's prime job is to make the various individual activities and efforts contribute to the group's work.

The leader will have to suggest, cajole, challenge, tease, and otherwise inspire each individual to contribute in his own way and, at the same time, guide them into working along the framework of shared commitments in the problem and in the methods used to attack the problem. He must, above all, be alert for any indications of confusion or hostility and exercise his guidance capabilities to reduce the trouble or eliminate it before it can cause a breakdown of the group process.

At some time during the meeting, the group personality may make itself felt, and the group may then begin to put the leader through a series of tests. They may test to see if he really considers himself the leader; if he really does expect or want them to contribute. They may try to make him move ahead too fast, or they may try to prolong some particularly favorite form of group operation. On anything controversial, they will, of course, constantly try to sound him out for an indication of his own feelings. There are no rules to help in these situations, because they will vary from group to group and problem to problem. Furthermore, when these leader challenges come up, they don't wear labels telling what they are—only experience will help the leader develop the instinct for spotting them.

Throughout the leader's effort, from the time he first begins to plan and organize his meeting or conference until he has submitted his final report on it, he must constantly keep in mind that a meeting is only a medium of communication—a means to an end, and not the end itself.

Overuse of methods may cause just the opposite reaction to what is desired. No meeting should be planned to be so out-of-this-world as to be unrealistic in terms of the participants' normal thinking, actions, and reactions.

To go contrary to human nature will throw all members of a group into a role-playing situation where they will simply be acting out their parts in the meeting, rather than giving true thinking, based on their normal previous experience.

The attitude of the leader, then, determines whether a group will reach its objective. The leader who seems to understand his members instinctively, and to respect them sincerely, will quickly command their respect in turn.

There are no tricks, techniques, methods, or gimmicks to replace genuine understanding and respect in the communication process.

—JOSEPH G. MASON



yourself a chance to relax and get acclimated. Before broaching your problem, or main subject, you can give the group the answers to some questions they will have on their minds:

Who you are (in relation to the problem), where you expect them to fit into the problem situation, what you expect of them in the way of help or contributions, what they can expect of you as the leader, the goals and objectives, and an outline of how the program will be handled.

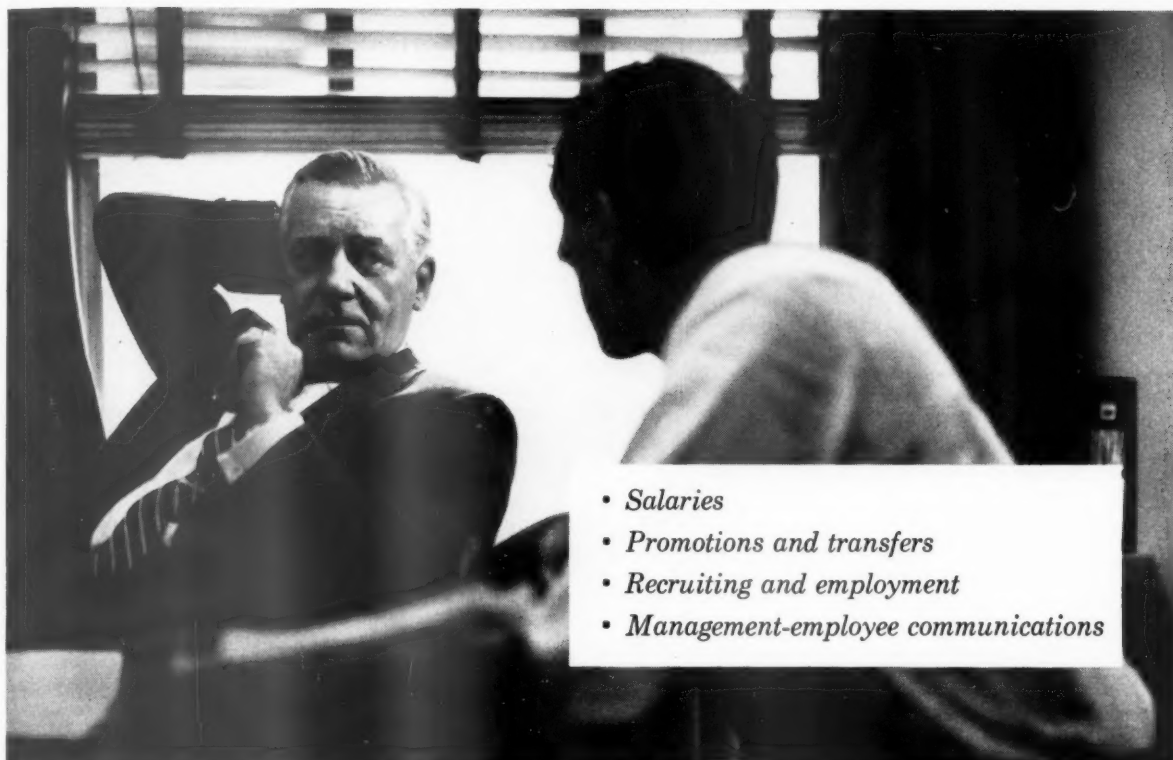
Of these, probably the one most important is that of letting the members know just what part they will be playing in the group effort.

Once you have broken the ice, you can then get into the business at hand. One way of doing this is to present the problem in objective discussion, but without divulging your own viewpoint. Or, you may give several tentative solutions to help the group start its thinking.

If you do this, be sure to vary the suggestions to avoid giving the impression that you are in favor of any one particular approach. The most helpful thing

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MANAGERS AS BUREAUCRATS *continued from page 39*

Improving efficiency of system dilutes creativity and spontaneity of business

these virtues but his sole concern with efficiency makes his personality look stunted and his intellect wastefully spent.

Even so, if it is not the lack of personality but the narrow focusing of it upon system building, it is still possible to argue that bureaucrats and autocrats (who focus their total personality on getting things done) do overlap here. This question drives to the heart of bureaucracy.

The experienced bureaucrat has learned to wrap up his ego in the anonymity of the system. For example, he may not use the autocrat's personal references, but he may use the impersonal "it" and the illusive "they" to such a degree that he may appear to avoid personal responsibility and risk. The bureaucrat with more ego may publicly dislike being trapped in the bureaucratic jungle but grant its necessity and reluctantly support it.

The autocrat has an unabashed ego and keeps it inflated by conspicuous successes. He may not be the most efficient, but he gets things done, seeks credit for it and never tires of more opportunity to test his personal effectiveness (rather than the system's).

In short, he strives to conspicuous excellence, to be superior to the system. It is here that the two types of executives severely clash.

The sophisticated bureaucrat may wrap up his ego further by imputing human attributes to his organization. For example, he views it as a living organism that extends beyond the life of any one person, including himself. At his worst he feels himself a cog; at his best, he feels himself a runner in a relay race.

Contrariwise, the man of action, the autocrat, resists losing himself this way and conceptualizes the life of the enterprise more within the orbit of certain goals that can be definitely accomplished by the application of his energy. For this reason change in autocrats is often followed by major changes in personnel and organization. Change in bureaucrats usually means more of the same bureaucracy.

The danger of bureaucracy is not simply that it stifles the creative virtues of the autocrat, but also that

it cannot easily institute better bureaucracy. Change usually means more bureaucracy before better bureaucracy.

The bureaucrat dares not be a man of action. If he is smart he will not be a party to radical changes. He is usually ultraconservative. The way he operates is best described by the experiment in physiology whereby a frog can be unknowingly boiled alive by gradually and imperceptibly raising the temperature of the water. What makes bureaucracy subtle is that it is without the frontal attack of the autocrat or the representativeness of the democrat. Bureaucracy is not a cataclysmic eruption, but a petrification which is determined by how many rules are instituted without conscious awareness of their presence.

Executives have been known to sneer at these charges of their supposed bureaucratic mesmerization while at the same time they evidence preoccupation with trivia and concern for feasibility before consideration of desirability. Little do they realize that their unconscious adaptation to bureaucracy attests to the genius of that system and not its lack of presence.

For many of them the awareness does not come until they reach top policy-making positions. Here they realize how severely diminished have become the intellectual and emotional qualities they need for formulation of broad-gauged objectives and programs. They cannot become superior to the system when they most desperately need to be.

The dynamic, aggressive and "history be damned" attitude of the autocrat assures the enterprise of periodic rejuvenation and is largely the reason why our business system in the past has maintained its healthy vigor. But as bureaucrats replace autocrats, the essential creativity and spontaneity of our business system is subject to considerable dilution.

The barrage of criticism will no doubt bring new panaceas, even though those that already exist to control the growth of bureaucrats are so numerous that one wonders how we got so much insight with so little success.

Nothing better attests to this dif-

ficulty than the most recent of panaceas, called decentralization of authority and decision-making, aimed at directly restoring executive initiative in the face of growing bureaucratic conservatism.

In spite of the relatively short time so far given to testing decentralization, it is apparent that top management must control decision-making by subordinates and cannot rid itself of this responsibility, at least not at present nor as much as it would like.

This is why decentralization in many companies has merely been the granting of freedom to make decisions that previously had to be made with fugitive authority. The fact is the top executives must continue to make most of the major decisions and lesser executives must continue to extend such judgment throughout the system. This is the major paradox of delegation: The more top management tries to decentralize decision-making, the more it must centralize decision-control.

Experience shows that, whereas some degree of initiative has been restored, this has required so many countercontrols, rules and procedures in the form of reports, communication and briefings that, for all practical purposes, the executive is worse off than he was. Business is learning that, in a system already steeped in bureaucracy, subdivision enhances bureaucracy more than it helps individual initiative.

However, bureaucracy can only assume part of the blame. Decentralization and perhaps many of the future programs that will be equally concerned with restoring executive initiative fail because the men given the additional authority have not had the competency and confidence to execute that responsibility. For this reason decentralization has been followed by recentralization above, and the mushrooming of numerous bureaucrats below.

Many critics of bureaucracy fear that business enterprise will cease to grow. But even this charge is not yet justified because passing through the decentralization-recentralization cycle has not impeded growth even with the increased bureaucracy. The fact is that bureaucracy has made possible further and more rationally planned growth. It is a major reason why businessmen today are greatly optimistic that there is after all no limit to the size that an enterprise can feasibly reach.

This brings us to what will do more than anything to bring about an overemphasis on bureaucrats if not recognized and properly han-



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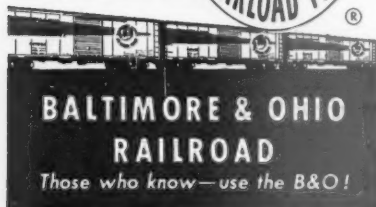


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BUREAUCRATS *continued*

dled. It is simply that this faith in the unlimited scale of enterprise has not been matched by an equal faith in the potential growth of the individual.

It is as though enterprise might increase indefinitely but men will always remain the same. This attitude, if not checked, may become lethal. Nothing is more typically bureaucratic than this pessimism as to the individual's lack of potential capacity to comprehend the essence of a vastly growing enterprise.

This diminished stature of the executive as an individual may well go down in history as one of our gravest misjudgments. So far it has mostly aided a substantial but not lethal overemphasis upon the democrat's omniscient group and the incipient dilution of the entrepreneurial ego to the point where executives feel overly awed by the augmented bigness of modern enterprise. But

the charges of increasing bureaucracy may become in the future painfully sustained if we continue to lose faith in the potential bigness of the individual and place our faith in great systems rather than great men.

To be sure, modern business must be both sensitive to the democratic ideals and guided by bureaucratic experts. For this reason business should strategically develop bureaucracy. But in making room for the bureaucrat, business must not become engulfed by him. It must affirm that the growth of the dynamic, aggressive individual, the perfecting of great men, is both the more necessary means and the more vital end of business enterprise.

—EUGENE E. JENNINGS
Michigan State University

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CONGRESS AND INFLATION *continued from page 34*

program each year specific recommendations on monetary and credit policies. Second, it would require the President to consult with the representatives of industry and labor on proposed price and wage increases in an effort to get them to change their minds. The President would, if necessary, make public his price-wage recommendations for the purpose of mobilizing public opinion against those planning increases.

Sen. Richard L. Neuberger, Democrat of Oregon, proposes standby authority to control prices, wages and rents. The President, in this bill, would be empowered to use the authority in the event of war or whenever his advisers tell him that inflationary pressures are so great that they threaten the economic stability of the nation. The Neuberger proposal would also give the President standby authority to reimpose the Korean war excess profits tax.

Sen. Wallace F. Bennett, Republican of Utah, would have Congress explore a "simple self-triggering system of enforcing the consumer's priority in a free market." He suggests that increases in wages and profits be forbidden in any year following a year in which the average price level rises.

Probably the most ambitious anti-inflation program has been drawn up by Sen. Prescott Bush, a Con-

necticut Republican. He would—as would many other members of the Senate and the House—add the goal of price stability to the present full employment goal of the Employment Act of 1946. He would also: 1, establish a commission to review the tax structure and long-range fiscal problems of the nation; 2, give the President an item veto on appropriations in one bill rather than in the present dozen or more separate bills; 4, provide consumer credit controls at least on a standby basis, and, 5, examine the causes of wage increases which exceed increases in productivity and determine whether present laws allow too much power in the hands of industry and unions.

Despite all the talk and rustling of papers, however, most members of Senate and House would agree that, to advance beyond the hearing stage this year, an anti-inflation bill will have to be so non-controversial that it would be virtually meaningless.

As already noted, most successful legislation in the current term will be on the side of inflation rather than against it. The emphasis will be on measures promoting more spending, more lending, higher wage costs. To justify this emphasis, the northern wing of the Democratic Party is pushing a novel economic

theory which says, in essence, that the cure for inflation is more inflation. Economists who propound this theory claim that experience shows that labor productivity rises faster in times of sharp economic growth and that the way to cure inflation is for government spending to promote economic growth, which will promote increased productivity, which will hold costs down.

The Democratic split personality on the subject of inflation—to which this unorthodox theory both contributes and gives at least a surface rationale—was perhaps best illustrated in the much publicized statement issued by the Democratic Advisory Council in early December.

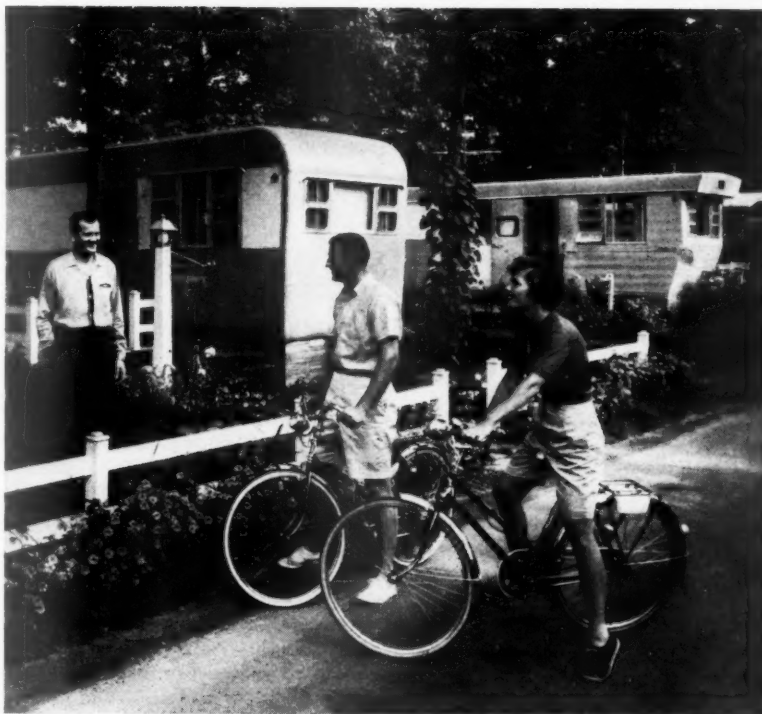
That statement, setting forth the "Democratic task during the next two years," includes a long section on the need to control inflation. "Actions to insure an expanding economy, in which full private and public consumption calls forth the high rate of productivity of which we are technologically capable, would facilitate the fight against inflation," the Council declared. "Artificially restrained production has inflationary effects."

The Council suggested that Congress attack the Administration's tight money policy, establish machinery to publicize proposed "inflationary steps in the private economy," and push ahead with investigations of administered prices.

At the same time, however, it called for stepped-up federal spending for school construction, scholarships, hospital construction, public assistance, aid to small business, power development, construction of community facilities, housing, urban renewal projects, area redevelopment and airports.

Such is the approach of an influential unit of the party which has overwhelming control of both houses of Congress. In the face of such sentiments and the absence of any prospect of meaningful congressional action, the Eisenhower Administration is putting its emphasis on its efforts to curb federal spending and bring the budget into actual or near balance. This course has the extra advantage of giving the Republicans some ammunition when the political game of "who's to blame" gets under way in 1960.

For practical plan to fight inflation and concise statement of other business issues before Congress turn page



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The central, dominating issue before Congress is the soundness of the American economy. The shadow of this issue will fall across a universe of smaller issues, for the majority of bills already introduced in the Eighty-sixth Congress would require spending of additional billions of tax dollars. Such expenditures, fiscal authorities say, could capsize the Administration's hopes for a balanced budget, add to the already huge federal deficit, and send the inflationary spiral soaring to even more dangerous heights.

On this page, and the three pages following, are concise reports on the major business-related issues facing Congress. Covered are proposals concerning social security, government restrictions on business, labor legislation, taxation, defense spending, and other issues.

Included with the individual summaries you will find a statement of the position which the U. S. Chamber of Commerce, as spokesman for organized business, has taken on each of the key issues.

INFLATION

THE ISSUE:

CONSIDERING the current state of the economy and probable economic trends during fiscal 1960 (which starts July 1, 1959):

1. What can be done to prevent inflation from lowering the value of the dollar?

2. What should be the proper relationship between revenues and expenditures in the federal budget for fiscal 1960?

3. How much can be saved by reducing less essential federal activities and improving efficiency in federal operations?

The federal government is running a deficit of almost \$13 billion. It is having difficulty financing its debt. It has strained existing tax resources to the limit. It is faced with mounting national and international pressures for more spending.

THE SOLUTION:

The U. S. Chamber will review the President's budget and make recommendations for economy and efficiency to congressional committees.

It will urge legislation to curb the monopoly power of unions.

It will suggest to Congress the establishment of an impartial study group to devise a new tax structure that will stimulate economic growth. It will urge amendment of the Employment Act of 1946 to provide that the government shall be responsible for controlling inflation as well as promoting maximum levels of employment and production.

The Chamber will continue to develop public support for Federal Reserve Board efforts to hold down inflation. (See full discussion of inflation measures on page 33.)

DEFENSE

THE ISSUE:

WHETHER President Eisenhower's \$40.9 billion defense budget is adequate or whether the Administration

program fails to meet the threat of Russia's military might.

THE SOLUTION:

Though in a situation so complicated no single recommendation is possible, the Chamber's objectives are to have an adequate national security at a minimum cost; a simplified defense appropriation structure for better control of funds; improved defense organization and management; and curtailment of commercial-industrial activities of the Department of Defense.

Dollars alone will not buy security. Devoting energies and resources to the point of weakening our economic system will defeat the effort to build a strong, well rounded defense system.

The Chamber will analyze the 1960 defense budget. It will urge Congress to restrict military programs to those of a compelling necessity; close unnecessary facilities; set a deadline for curtailing unnecessary commercial-industrial activities and use the new powers under the defense reorganization act.

PROCUREMENT

THE ISSUE:

MANY PROVISIONS of the Armed Services Procurement Act of 1947 are obsolete and contribute to delays and unnecessary expenses. The Act governs how more than \$22 billion of the annual defense budget is spent.

Because of legislative and administrative restrictions, our defense procurement system does not make full use of the vast industrial ingenuity and resourcefulness that has put the United States ahead of the rest of the world in the production of top-quality, low-cost, nondefense products and services.

The law still stresses a highly formalized type of procurement that is impractical and uneconomical in buying some complex military equipment, and discourages use of the method of procurement that experience has demonstrated is the most efficient and economical for 90 per cent of the dollar volume of such purchasing.

At a time when our security could

be threatened by a month's delay in procuring a new weapon, the United States is taking twice as long as Russia in converting many of its ideas for new weapons into finished products.

THE SOLUTION:

The Chamber will support the major objectives of legislation which Senator Leverett Saltonstall (R., Mass.) has reintroduced to overhaul the Armed Services Procurement Act.

Also, the Chamber will urge that the Renegotiation Act be allowed to expire next June 30, and that defense contractors be indemnified against unusual hazards.

MILITARY MANPOWER

THE ISSUE:

CONGRESS must decide for how long and in what form to extend the draft law in the light of rapidly changing military manpower requirements and the increased importance of expanding our scientific and technical education programs.

Manpower is much more than a military problem. We have one labor force and the demands on it, particularly in time of national emergency, must be well coordinated.

Although our military manpower requirements have dropped to 2.5 million, a much larger percentage of the active forces must be technical and skilled.

THE SOLUTION:

Extension of the draft law in some form is generally accepted as necessary.

Previous extensions have been for four years. Congress should consider manpower problems more frequently than that.

The Chamber urges a two-year extension because:

A quality career force is being developed.

Reenlistment rates are continuing to increase.

Secretary McElroy anticipates further reductions in manpower strength.

The problem of obtaining inductions at an age lower than 23 should

be dealt with either by amendment or administrative action.

LABOR RELATIONS

THE ISSUE:

WHAT LAWS are needed in the labor-management field to bring fair play to the public, to employees and to employers?

The issue is important to the businessman because labor costs and other labor problems are among the most worrisome matters with which businessmen have to deal. The entire future of our economy depends in great measure on the skill with which these questions are handled.

Only if there is a greatly aroused public opinion on the question will Congress seriously undertake to do anything about it. With a growing number of members of Congress beholden to labor because of campaign contributions and other support, there is a hard core who are against action which would go to the heart of this important matter. In fact, there is likelihood that efforts will be made to give labor still more power.

THE SOLUTION:

The Chamber recommends equal treatment under law as a means of solving the problem. Such treatment would mean curbing the monopolistic abuses by unions and compelling fair play on their part, just as such requirements have long been imposed upon employers.

The argument most frequently used against the Chamber's position is that the businessmen's basic purpose is to destroy unions.

The principal arguments for the Chamber position are that federal and state protection of the right to organize has placed tremendous power in the hands of a few labor leaders. This power has resulted in corruption and abuses. The victims have been the public, employees and employers.

Business long ago was brought under the antitrust laws, the fair trade laws, the Securities Exchange Act, and other laws which compel fair play. Unless we are to have a harmful imbalance in our society, big labor's activities must likewise be regulated.

EDUCATION

THE ISSUE:

SHALL federal spending and decision-making further direct the adjustment of American education to the space age, or shall school needs be met by state and local resources?

More federal intervention means:

1. Increased federal taxes for education, and federal intervention in school systems and colleges.

2. The transfer of decisions affecting public schools from local and state governments to the federal government.

3. The loss of autonomy by private schools and colleges, as they become more dependent on federal grants, or loans, or contract programs.

Members responsible for the National Defense Education Act urge that Congress increase the areas covered and the amount of federal intervention into education. Many indicated at the end of the Eighty-fifth Congress that the National Defense Education Act was "but a step along the road we must travel in federal financing of education."

Likely further proposals are grants for school construction and to improve teacher salaries.

Those favoring more federal intervention in schools argue that the space age has created demands for trained manpower which state and local school improvements cannot meet.

On the other hand, no manpower emergency has been demonstrated, beyond the chronic need for scientists. State and local school authorities are providing dynamic leadership toward the solution of space-age curriculum requirements. At the same time, school construction, except in rapidly growing suburban areas, has more than kept up with enrollments.

THE SOLUTION:

The Chamber recommends that school needs be assessed by local and state leaders—both educators and laymen—and that their resources be fully used to provide educational support and to increase the efficiency with which school revenues are spent. Only when an emergency exists which is clearly beyond

What's at stake in WASHINGTON *continued*

the resources of a state and its communities should any program of federal intervention be considered, even on a temporary basis.

Local Chamber Education Committees and Congressional Action Committees should help educators assess their school needs and find the resources to meet them.

The controversies over curricula and teaching methods cannot be satisfactorily resolved through national legislation or administrative decrees, but must be left to a diversity of experiment in the thousands of school systems where local initiative can better adapt schools to the needs of the communities they serve.

TAXATION

THE ISSUE:

THROUGH our federal system of taxation we pay for our freedom as well as for the goods and services of national government.

The demands and pressures for revenue are high.

The communist threat dictates a continuing national policy of heavy defense spending. More than half of government outlays are for protection.

Pressures to commit the balance of federal tax money for more services, grants, benefits, aids and projects are growing at a rate that now exceeds that of the income produced under our tax laws.

Unwise taxation will ultimately destroy the incentive to produce and the ability to invest in economic growth.

Investment is necessary to provide the jobs for our expanding labor force and for our national defense.

During this session of Congress hundreds of bills will be introduced to change either our tax rates or our tax system. Most of these will receive scant consideration. Rep. Wilbur Mills, chairman of the Ways and Means Committee, has indicated that the committee will limit itself to technical and administrative changes. However, he has called for eventual uniformity, simplification and broadened tax base.

THE SOLUTION:

We must choose between a tax system which by its nature retards our

potential economic growth through destruction of traditional sources of investment capital or development of a tax system which will permit individual savings and resultant investment.

If we are to maintain federal budgets at or above this level without doing irreparable harm to the economy, it is essential that we so stimulate the tax base as to create an economy that is sufficiently healthy to withstand this continuing drain.

Basic to our need is an impartial study group which will take a keen look at the strengths and weaknesses of our present tax system, investigate the tax systems of other nations, and devise a tax structure which will stimulate our national economic growth.

This period of huge federal deficit, with its prospect of more to come, is ideal for this type of effort.

CONTROL OF BUSINESS

THE ISSUE:

FUNDAMENTAL to the American way of life is the principle of minimum government interference in citizens' activities. The foundation is being laid, however, to substitute government controls for freedom of economic activity in:

Mergers: Legislation under consideration would require certain companies to wait until a government review period expired before merging.

Mergers are a normal part of business operations and help stimulate the nation's growth and development. The proposed legislation would result in frustrating delays and discourage beneficial mergers.

Pricing: Some members of the Senate Judiciary Subcommittee on Antitrust and Monopoly are accusing large firms in key industries of setting so-called administered prices.

In our free society, what is produced and its price are regulated by the market. Administered prices are not a contributing cause to inflation, but rather tend to reflect costs—predominately wage-pushed costs.

Minimum wage coverage: It is proposed to extend federal minimum wage and premium overtime pay regulations to employees of re-

tail and service trades who have always been exempted from coverage because of the local character of retailing and services.

Such extension would interfere with the maintenance of a proper balance between federal and state authority in interstate and local commerce. Extending coverage would also add to the inflationary spiral by setting wage levels without regard to productivity and causing employees earning more than the minimum to demand more pay to protect established differentials. It would hurt small business most.

THE SOLUTION:

Government should not control beneficial mergers. Those few mergers which might adversely affect competition can and should be dealt with by proper application of anti-trust laws.

There is no justification, either, for federal interference with normal price-making procedures. Prices adjust to changes in supply and demand.

Exemption of retail and service trades employees, which has existed for good reason since the wage-hour law was passed more than 20 years ago, should be continued.

SOCIAL SECURITY

THE ISSUE:

SHOULD social security pay benefits large enough to live on comfortably? Should costly new benefits be established?

The present schedule of benefits promised by Congress to the aged person, to his dependents, to family survivors requires virtually doubling the tax rate by 1969, and an increase in the taxable wage base now in effect from \$4,200 to \$4,800. This means more than doubling the current tax burden upon many employers and employees.

Under the present law a higher taxable wage base has become effective in 1959, and the taxes on employers and on covered workers will be increased in 1960—and 1963, 1966, 1969.

THE SOLUTION:

The Chamber recommends that social security pay monthly cash benefits sufficient to prevent want

and destitution to people who, because of age, are unable to support themselves.

It is argued that benefits should be made sufficient for a person to live in decency and self-respect. Another argument is that benefits should be increased because of the higher cost of living and to reflect higher levels of pay and rising productivity. Labor leaders contend that workers are willing to pay their fair share toward higher benefits and for new kinds of benefits.

The facts are, however, that the financial soundness of social security must be preserved. This financial soundness depends in large part upon a continued willingness of workers to pay the necessary social taxes. Since the full tax burden of the presently scheduled benefits will not be fully felt until 1969, bigger and new kinds of benefits should not be put into the law until we know for certain that the covered workers in 1969 will be willing to carry twice as large a tax burden as at present.

Moreover, each person is expected to build additional old-age income through his own efforts.

URBAN RENEWAL

THE ISSUE:

CAN CITIES revitalize their blighted areas, or is permanent and increasing federal assistance needed?

The Eighty-sixth Congress has been asked to authorize a 10-year urban renewal program of \$600 million annually. This has been coupled with proposals to increase the federal share in this program from the current 66 $\frac{2}{3}$ per cent to as high as 90 per cent. Added to measures already introduced are requests to expand the program to include substantial financing for renewal of areas for commercial and industrial development. The program now is predominantly residential.

The commercial and industrial renewal feature will be sought through normal housing legislation, and will probably be a significant point in any depressed area legislation as it was during the last Congress.

THE SOLUTION:

The Chamber recommends a gradual reduction of the federal share

in this type of activity to a point where it can ultimately be phased out completely. The Chamber has suggested means by which cities can approach their individual problems without seeking substantial federal assistance.

The Chamber points out that many cities have already accomplished much on their own initiative. Pittsburgh, Flint, Mich., Baltimore and Indianapolis, to name a few, have shown that they can do a tremendous job on their own.

Moreover, the whole of the \$1.4 billion urban renewal capital grant fund has been tied up by a mere three per cent of America's more than 17,000 communities. Assuming that many more cities will want urban renewal funds, and that existing participants will request increases, the program could become unmanageable.

DEPRESSED AREAS

THE ISSUE:

MUST ALL taxpayers be compelled to subsidize a relatively few areas with chronic unemployment, or can this problem be met by states and localities, helped by business organizations, without federal aid?

A new area redevelopment bill, going far beyond the \$279 million measure pocket-vetoed last September comes before the new Congress. It is a major goal of labor unions and will have the support of many newly elected congressmen. Proponents of this legislation argue that federal aid to depressed areas is long overdue; that relief of chronic unemployment is beyond state, local and private resources.

Depressed areas are generally described as those with six per cent or more unemployment.

THE SOLUTION:

The National Chamber believes that the real problem is to determine exactly what industries can succeed in these areas, what changes must be made to attract them. Healthy economic recovery depends on finding productive job opportunities. It can best be brought about by aggressive, local industrial development organizations, backed where necessary by privately financed state-wide credit corporations. This approach stimu-

lates local initiative. It is also clear that a federal aid program might well use your community's tax money to help finance industrial development for a competitive community.

A federal subsidy program often continues and expands, even though the original need has been met. Pressures to extend aid on looser terms would be difficult to withstand. More money would be requested.

(For detailed discussion of this issue, see page 42.)

PUBLIC HOUSING

THE ISSUE:

THE BASIC ISSUE here is whether housing for special segments of the population should be subsidized by tax funds.

Begun on a small scale in the 1930's, the subsidizing of housing has grown until the federal government now materially supports more than 500,000 units.

The program lost sight of its original low-income character when Congress, in 1957, revised the formula for determining net income for residence in public housing so that a family earning \$9,800 a year could live in some projects.

In many communities public housing has invaded the private market and the community is deprived of necessary taxes.

As of June 30, 1957, the government was committed to annual contributions of nearly \$200 million to cover subsidies to local public housing authorities, and the program showed a net deficit of more than \$600 million.

In more than 20 years of operation the program has failed to upgrade housing to any extent.

THE SOLUTION:

The Chamber has recommended continuing enforcement of local housing codes as a means of halting the growth of substandard housing from which public housing residents supposedly come.

The provision of decent, safe and sanitary shelter is a local responsibility and should be met according to local requirements through a combination of private enterprise and local welfare action.

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Executive Trends

Twilight of the gimmick

In an increasing number of companies—large, medium-sized and small—executive development programs are being subjected to intensive reassessment.

Behind this development, in at least a few organizations, is a feeling that development programs have not lived up to expectations.

In some instances the disenchantment focuses on superficial elements of development—particular training techniques or gimmicks. In others, dissatisfaction centers on individual program directors.

One major southwestern manufacturing company, which had set up a special department to manage executive development, has decided that the problem does not warrant special emphasis. As a result, the program has been abolished as a separate entity and has been placed under the supervision of the personnel manager.

► *Accumulating evidence suggests that too many programs were hastily established and now are suffering from poor planning or the underqualification of the men responsible for running them. In other cases, program directors have relied too heavily on techniques that worked well for other companies but are not tailored for their own.*

A lesson to be learned from failure

"If we look behind the operations of all the firms that are moving down the road to failure, and again at the firms that are going to have the greatest growth in future years, the distinguished feature most often observed would be the effectiveness with which they did the job of marketing their goods or services."

This statement by Al N. Seares, a former vice president of the Remington Rand Division of Sperry Rand Corp., introduces an informative new monograph on scientific marketing management prepared by Mr. Seares for the Society for the Advancement of Management.

Mr. Seares, who is now retired, describes the many elements essential to an effective marketing program—from program organization and planning to sales forecasting, sales personnel training and techniques of motivation. His analysis will be of particular interest to companies making the crucial transition from small to medium size.

► *The necessity of orienting all company operations around the customer, or ultimate user, is stressed by Mr. Seares. Of new products he says: "Products should be introduced not merely because it is anticipated a large number can be sold . . . but because on the basis of the best available information it is believed that they will yield a net return after all the*

costs of development, setting up production facilities, and carrying out sales campaigns have been covered."

Coming: Bigger battle for markets

Future business growth will depend on management's skill in developing new products to sell in competitive markets. That's the consensus of more than 75 chief executives of growth companies consulted by Dr. Philip Marvin, manager of the research and development division of the American Management Association.

"Thinking horizons limited by today's going products now are recognized to be inadequate," Dr. Marvin reports. "No longer can current consumer needs dominate development goals. These goals must be based on long-range projections of technological opportunities. Radically new products, not just new gadgets, will be demanded of development groups."

► The executives consulted by AMA's Dr. Marvin criticized the tendency of some managers to think in terms of so-called fixed annual growth rates, such as 10 per cent. The pace-setters, they say, are aligning growth guides to opportunities inherent in the foreseeable future and in some cases are programming for annual growth rates as high as 30 to 60 per cent. Forecast: Industry spending for research will rise sharply in years ahead.

The books executives should read

How many of the 250 to 300 management books published in America each year are of enduring value?

Probably not more than 30 or 40, says Dr. Nathaniel Stewart, well known management authority and publisher of "Personnel Management Abstracts."

Like Dr. Stewart, other authorities consulted by NATION'S BUSINESS have their personal selection of great books in the management field. The choices range all the way from such early classics as Frederick Winslow Taylor's "Principles of Scientific Management" (1903), to "The Organization Man" (1956).

► Here are some of the other books recommended as must reading for executives wishing to deepen their knowledge of the philosophy and techniques of administration: "The Function of the Executive," by Chester I. Barnard; "Industrial Leadership," by H. L. Gantt; "The Technique of Executive Control," by E. H. Schell; "Communication in Management," by Charles Redfield; "Industrial Organization Management," by Ralph Davis.

Executives as philosophers

One of the most interesting personal philosophies currently being discussed in management circles is that developed by Prof. Ralph Davis of Ohio State University (see book mention above).

Professor Davis says his creed, or philosophy, has been 25 years in the making. He offers it for the enlightenment of students of management and for practicing businessmen who may feel a need for regaining perspective of themselves and the business system.

His 10-point creed emphasizes a belief in economic decentralism, in the concept of a free-market economy. This implies opposition to socialism and centralized government control of the economy, since these would weaken the rights of private property.

► Professor Davis also holds that monopoly by either labor or capital is destructive of the free-market economy. He opposes any measures designed to prevent formation of private capital, including confiscatory taxation. He emphasizes the managerial concepts of delegation, decentralization, individual initiative and individual accountability.

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THE DECADE AHEAD ▼

SKIP DOWNTURN

continued from page 41

time approaches, and as more data become available.

To use the conveyer industry as an illustration again, we may conclude that this industry as a whole may go 20 per cent or more above its 1957 peak by 1960, and your company may do somewhat better than this. The conveyer industry might then find its orders dropping 10 per cent to 20 per cent during the coming slack period. You might find yours dropping five per cent to 15 per cent.

An analysis such as this must be based on probabilities only, not on certainties. Should the present expansion last longer than 30 months, both the growth and the drop might be greater. Should the present expansion end more quickly, the growth and the drop might be less. And, of course, new developments in the industry, or in your company, as well as in the economy as a whole, could change the picture sharply.

A third point of reference is the timing of the shifts in your industry against those of the economy as a whole. For instance, orders for conveyer equipment have tended to lead those for industries as a whole. Orders for conveyer equipment dropped in late 1947, 1952 and 1956 before orders for other goods dropped. They averaged 23 per cent lower in 1957 than in 1956. Although they rose in the spring of 1958, ahead of the rise in orders as a whole, they dropped in August and have stayed down while orders elsewhere were rising. So, although conveyer orders generally rise or fall before orders in other industries, there is no certainty that they will do so in the future.

It may be wise for the industry to assume that its orders may fall at least as soon as other orders, possibly sooner. It may be helpful for this industry to be ready for a drop by the late summer of 1960, but also to be prepared in case orders continue to hold firm or rise into 1961. Plans should be kept as fluid as feasible until a firm decision can be made as to the timing and the nature of the turning point. A recognition that the turning point is bound to come, rather than a pinpointing of its date, is the important part of the forward planning operation at this stage of the cycle.

The fact that the conveyer indus-

try grew more than nine per cent per year, or that certain other industries grew four per cent per year from 1948-58, does not mean that the conveyer industry will continue to grow at nine per cent or that other industries will grow at their historical rates. Each industry and each company must be examined separately. But the techniques of relating industry to national, and company to industry growth, applies across the board. Probable relationships for the future—the anticipated growth of the economy as a whole and the growth of any particular industry—can be developed by each company concerned.

Just as each industry differs from every other industry, so each business expansion differs from every other. The current expansion probably will not exactly duplicate any previous one. The first six months' rate of growth for the expansion starting in August 1954 was about 50 per cent greater than that for the expansion starting in November 1927, but the rate for the next 18 months was nearly identical for the two upsurges. The growth rate for the first six months of the expansion starting in 1924 was nearly 50 per cent greater than that for the 1949-53 growth, but the rate in the next 18 months was less than that for 1949-54.

In general, the growth in production during the first six months of any expansion tends to be at a rate at least twice as great as that in the next 18 months. But this does not always happen. The rate of growth from July to December 1921 was less than the rate of growth in the succeeding 18 months. The rate of growth in 1958 would ordinarily not be expected to be maintained in 1959, but a continuation of such a rate of growth would not be unprecedented. Each company must reach its own decision as to how fast the over-all growth will be, how long it will be sustained, and what that means to its own prospects.

A frame of reference of this sort will help keep management decisions in perspective during booms, thus reducing the size of the next recession. Memories and judgments of cycles tend to be warped by the major experiences, such as wars and the great depression. So businessmen may tend to expect too much of a rise when the cycle starts up and to anticipate too much drop when a recession appears.

The next and equally important question is what to do to prepare for the next recession, once a decision is reached about the nature,

strength and length of the current recovery. Even if you knew just how orders for your industry, and for the economy as a whole, would behave in the next three or four years, how would you adjust your plans for the recession?

Some adjustments are obvious. It takes time to order, design, install and break in new equipment and new plants. Such new—or improved old—capacity, should not come into operation at the peak of the boom. It should start producing at about the bottom of the recession—or the early days of the expansion period. It can then be working at its best rates at the peak of the boom, and will help keep costs down when pressure is heaviest. To make this possible, the plans for plant expansion and for improvement must be made, but not executed, during boom times.

The capacity that will be needed at the peak of the next boom should be determined, then, early in this expansion period. The plant and equipment necessary for the peak of the expansion of 1961 to 1965—whatever the dates of expansion may be—should be decided now, and arrangements made for the land, money, drawings and orders, so that contracts can be let shortly after the next downturn starts. Then, with companies eager for your business, you can get good prices, quality and timing.

By planning capacity for the next boom during this one, and paying for it during the next recession, you get good value for your money. In addition, you help reduce the magnitude of the swing. Business expenditures for plant and equipment have dropped in each recession. They went down in 1949, in 1954, and in 1958. The decline was one of the main causes of the recessions of 1949 and 1958 particularly. Anything that reduces such declines will help stabilize the rate of growth of the economy as a whole.

Other policy adjustments are apparent. Do not build up inventories, or increase orders, as the rate of growth in the economy and your industry begins to slacken. Hold your inventories to what will be needed for the current upswing; do not get enough to take care of the next expansion.

Build up your cash position now and buy paper that can be turned into cash when it comes time to expand your plant for the demands of following booms. You will get good interest on your money at times when it is relatively scarce, and can

(continued on page 100)

Onan NEWS REPORT



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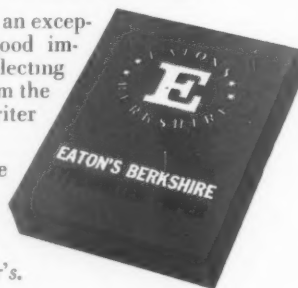


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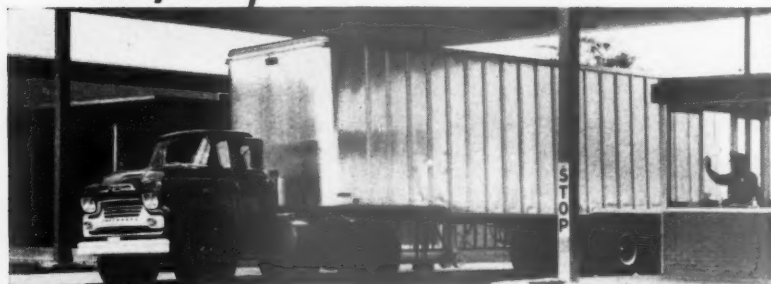


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THE DECADE AHEAD ▼

SKIP DOWNTURN

continued

use it, or borrow more, at times when it is relatively cheap. New top-hierarchy personnel will ordinarily not be hired at boom periods, but plans should allow for hiring in slack periods. Each company can work out policies which are best adapted to its industry and its own problems and opportunities.

One detail has been left: How do we know when the turning point has come? How do we know when to order new equipment, or contract for new buildings? Aren't economic statistics so fuzzy that all that has been said thus far is theoretical?

If it were necessary to pinpoint a specific day and hour for any turning point, this would be true. But the suggestion is that plans for the next advance be made some time after the current advance starts, and that contracts for the capacity for the next boom be let some time after the current boom has passed its peak. No refinements of timing are needed. After orders have weakened, after delivery times have improved, after labor shortages have eased, after interest rates soften, after profit rates weaken, after the turning point has become obvious, then push the button.

The 1958 recession, which started around July 1957, was publicized by the fall of 1957. The expansion of 1958, which started roughly in April of 1958, was publicized by May and June of 1958. If a definite turn has come, the fact will be known within three to six months. If it were necessary to act in these ways within three to six months in advance of the turn, the problem might be nearly insuperable today. But when the decision can be made within, say, six months after the event, the task is quite manageable.

A frame of reference that calls for an average growth of 3.5 per cent or five per cent, or some other annual rate, that allows for growth double this rate in early stages, and less at later stages, and which plans in advance for declines, permits realistic planning. It reduces chances for hysteria. It results in the building of capacity at times of lowest prices, but in time for most effective utilization. It can cut costs, and increase profits.

As its use spreads, it will help reduce the amplitude of business cycles.—ROBINSON NEWCOMB

THE DECADE AHEAD ▼

GUIDE FOR GAUGING FUTURE

Important economic forces will change
your forecast. Here's what they are

BUSINESSMEN who turn to the problem of planning ahead face a peculiar hazard:

The temptation to be too exact.

A forecast can be valuable in indicating the magnitude of future change, the direction we are headed, and the economic forces that will change projections.

Fortunately, broad planning does not require absolute precision because the tools of forecasting are still too crude to provide it. Even good tools could not anticipate the imponderables that will complicate the picture.

For example, in 1949 it would have been an omniscient forecaster, indeed, who could have foretold the Korean war and the cold war which has made it necessary to spend more than \$40 billion annually for defense in time of peace. What allowances would he have made for Sputniks and Explorers, currency devaluations, and even the tremendous baby boom which has continued almost unabated during the ensuing decade?

What will be the equivalent of these explosive developments in the next 10 years? We have no way of knowing. That some major developments will have an impact upon our economy is one forecast that we can make with certainty. But what they will be and the nature of their impact are effectively hidden. We can speculate that some uses of atomic energy might be one of these areas. We can speculate concerning trips to the moon.

But it is also possible that some new development, unforeseen today, could overshadow both atomic power and the conquering of outer space. In other words, one of the problems in long-term forecasting is how to foresee the unforeseeable.

Still, forecasts are essential. The businessman who hopes to use them successfully needs to be aware of the limitations. He needs to use forecasts with caution and revise his plans periodically as new facts become available.

Probably the most adequate forecasts can be made for the immediate future and for the long term. The

least adequate forecasts are for the intermediate period.

Forecasts can help to indicate the general direction of change although they can't serve as a crutch which supports a precise percentage of change.

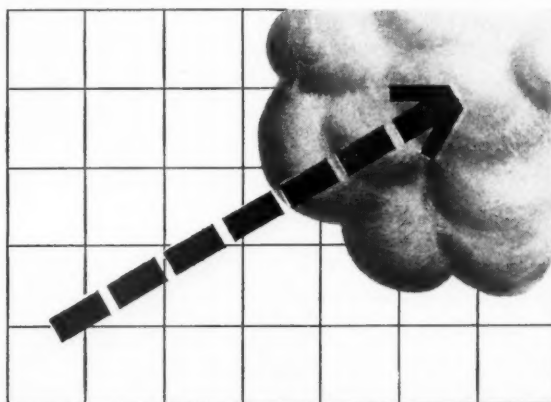
For the long term it is possible to picture the general trend in broad strokes and to project the range of probable levels in economic activity. The use of a range of estimate will protect against the dangers of too great a reliance on a single figure.

Where a single figure is used it is imperative to know something about the background of the man who made the figure and to understand the assumptions he was willing to use.

Some statisticians have a built-in bias of optimism or pessimism which influences the assumptions they accept.

To see how a slight difference in a basic assumption can change the anticipated outlook, let's project the gross national product, using a few of the varying assumptions that are being mentioned today. The level

Temptation is to forecast too exactly





"I am the State!"

"Thus King Louis XIV is said to have interrupted a judge who used the expression, 'The King and the State.'"

"He was right, of course. He was the center of all national activities. His industry was tremendous, and his hand was in almost every move of European politics, launching campaigns, making laws, negotiating alliances, and also finding time to build palaces, to encourage science, literature and art—and to enjoy life. Truly *he* was the State.

"It's a far cry from the autocratic spirit of seventeenth century France to the democratic spirit of twentieth century USA, but you, Joe Citizen, might well use the same famous phrase today; use it with a deeper, more significant meaning.

"To be 'the State' however, implies responsibility, and if you're a business man your responsibility is even greater. To your business or company. To your employees and customers. To your community. To yourself.

"So my advice to you is: Face your responsibilities squarely. Join your local Chamber of Commerce and help make its program ever broader and more effective. Help build up your community and you'll be helping to strengthen our nation.

"Because *you*, Joe, are the State."



Pete Progress

Speaking for your
local Chamber of Commerce

THE DECADE AHEAD ▼

GAUGING FUTURE

continued

of real gross national product for any period reflects the combination of the number of persons employed, the average number of hours they work, and their average output per man-hour. We usually assume prices will be unchanged. To project the level of output or real gross national product for any future period, therefore, it becomes necessary to estimate the probable levels of:

1. Average output per man-hour.
2. The number of persons employed.
3. The average hours worked.

Modest variations in the anticipated levels of any of these variables can have significant effects upon the over-all estimate. It is of critical importance, therefore, to examine the assumptions underlying any long-term forecast. Let us review briefly each of these assumptions.

Output per man-hour

The assumption concerning the trend of output per man-hour in the years ahead is the most important factor explaining the wide variations in long-term projections. The long-term gain in output per man-hour in the private economy has been at the rate of about two per cent a year. In projecting the future economic activity, many economists have assumed that this rate will be higher than two per cent. The estimates range up to four per cent. Although there does not seem to be much difference between two per cent, three per cent or four per cent a year, the results are staggering when these figures are cumulated.

For example, an annual increase of two per cent a year means that the total is doubled in 36 years, increased fourfold in 72 years, and eightfold in 108 years.

A compounded rate of increase of three per cent doubles itself in 24 years, increases fourfold in 48 years, eightfold in 72 years, 16-fold in 96 years, approximately 24-fold in 108 years.

Thus over a century, an annual rate of three per cent would yield about three times as large an increase as a two per cent rate.

When the compound rate is four per cent the increase would be fourfold at the end of 36 years. In 72 years the increase would be 16-fold. At the end of 108 years, the output

would be 64 times as large as at the beginning of the period.

Clearly, it makes a considerable difference whether the forecaster assumes a gain in output per man-hour of two, three, or four per cent per year.

For a 10-year period, two per cent compounded annually would yield an increase of 21.9 per cent, three per cent would yield an increase of 34.4 per cent, and four per cent would yield an increase of 48 per cent. In other words, an annual rate of increase of four per cent would yield a net gain 2.2 times as large as that from a two per cent rate.

It is clear, therefore, that the rate of gain assumed for productivity plays a vital role in the results from this method of projection.

Those who anticipate the largest gains in worker output usually emphasize automation, the enormous investment in new plant and equipment, and the tremendous progress in technology during the postwar years. For example, investment in plant and equipment since World War II has totaled \$336.3 billions (1946 to 1958 inclusive).

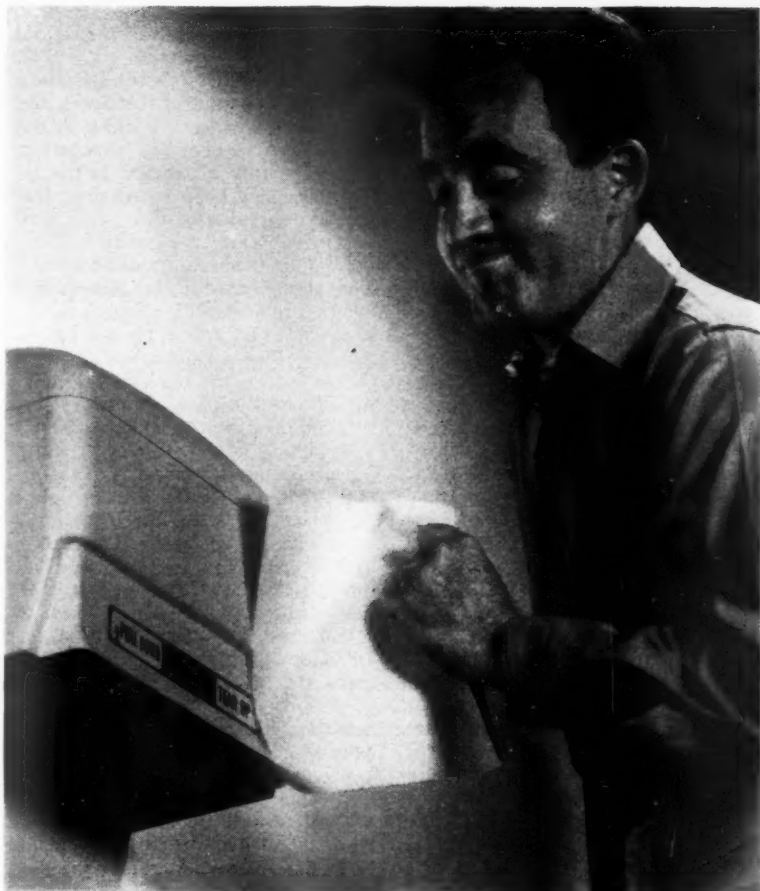
Expenditures for research and development have increased from an annual rate of less than \$2 billion in 1946 to more than \$9 billion in 1958. New products and techniques have been developed at a fabulous rate.

All projections agree that expenditures in this area will increase.

But these developments are offset by other forces. For example, available supplies of raw materials are becoming more scarce and it requires more effort to utilize marginal supplies as well as substitute products.

Second, the number of nonproduction workers has been increasing more rapidly than production workers. In 1946, the nonproduction workers accounted for 16.3 per cent of total employment in manufacturing industries. In November 1958 the proportion was 24.3 per cent. This development has acted to hold down rates of gain in productivity. It will become even more important in the years ahead.

Third, postwar experience does not demonstrate that the economy has moved up to a new level of gains in output per man-hour. It is true that the rate of gain during this period has been somewhat greater than the long-term average rate. But this reflects in part a catching-up for the lag during World War II. It is interesting to note that, despite the high level of economic activity and the enormous new investments in plant, equipment, research and



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THE DECADE AHEAD ▼

GAUGING FUTURE

continued

development, output per man-hour has increased more slowly since World War II than it did after World War I.

Fourth, part of the past rise in national productivity has reflected the shift from agriculture to non-agriculture industries. This factor will decrease in importance over the next decade as the movement from farm to industry is sharply reduced.

Fifth, as living standards advance, a growing proportion of our income is spent for leisure activities which usually involve personal services that show little if any gains in productivity.

Clearly, the factors affecting future gains in output per man-hour are not all on the plus side. Both plus and minus factors must be considered. Moreover, we must keep in mind that the two per cent rate of increase has properly been called the miracle of productivity because of the fabulous increase in economic well-being which this rate of gain has made possible.

Employment

Various estimates have been made of the size of the labor force in the next 10 or 15 years. The labor force consists of those persons 14 years of age and more who are working or who seek work. Usually estimates of its size are based on an analysis of the present age composition of our population.

Certain assumptions must then be made concerning the proportion of youngsters who will go to college, the relative number of women who will be in the labor force, the rela-

tive importance of government, and related developments.

The long-run tendency has been for the proportion of teenagers and of persons 65 years or older in the labor force to decline. In contrast, the percentage of women in the labor force has been increasing. Obviously, the size of the labor force obtained by any projection will depend upon the assumptions adopted. The actual size of the labor force can be influenced by changes in our ideas as to a proper age for retirement—either a raising or lowering of the retirement age—by the magnitude and duration of military service required, and by social attitudes toward permitting women to work.

Based on interpolations of estimates of the U. S. Bureau of Labor Statistics, the labor force for 1967 would range between 79.3 million and 82.5 million, as compared with the current level of about 70 million. These figures may be used to illustrate the problem of projection. In following this procedure, government and private employment have been considered together, although a more refined method would be to estimate these two sectors separately. Nevertheless, this short cut does not affect the results significantly.

Starting with the two levels of the labor force, it is necessary to make certain adjustments. For example, those who are serving in the armed forces should be deducted from the total. The number that would be involved is anyone's guess. For this illustration I have assumed three million. Next, it is necessary to deduct the volume of unemployment. I have assumed that unemployment would be three million, or about four per cent of the labor force. This is the proportion usually anticipated for those shifting jobs. This estimate may turn out to be low. After making these adjustments we end up

with a volume of employment ranging from 73.3 million to 76.5 million in 1967 as compared with 65 million in 1957. The actual figure may be larger or smaller but these data will serve for illustration and projection.

One point should be noted in connection with projections of the volume of employment. The impact of errors in this area will be moderate as compared with those made in projecting output per man-hour. The use of the higher employment figure would mean a gross national product only about five per cent greater than that obtained by using the smaller estimate.

Number of hours

How many hours a week will the 1967 labor force work? Estimates have varied between 35 and 40 hours. Here again, the size of the estimate plays an important role in the final result. If a 40-hour week is assumed, the total gross national product derived will be one seventh larger than if the projection is based on a 35-hour week. Clearly, the magnitude of the estimates derived in this manner will vary depending upon the assumptions made. If the forecaster is pessimistic concerning the outlook for job opportunities he may use even a smaller number of hours in order to spread the work. Moreover, the total number of hours actually worked in a year may be further reduced as a result of more liberal vacations, more frequent holidays, and other changes.

Projections for 1967

It is instructive to examine the forecasts that may be obtained on the basis of the various assumptions we have discussed. For this purpose, 10-year projections have been made based on levels prevailing in 1957.

The table, left, shows the estimates yielded by the various assumptions concerning the rate of increase in output per man-hour, the number of hours worked per week, and the size of the labor force.

If the lowest assumptions are used—a two per cent annual increase in output per man-hour for a labor force of 79.3 million working 35 hours a week, a gross national product of \$520.3 billion in 1957 dollars results. This compares with \$440 billion in 1957. The increase would be 18.3 per cent.

At the other extreme, if it is assumed that we will have a labor force of 82.5 million working a 40-hour week with productivity increasing at the annual rate of four per cent per year, the gross national

ESTIMATES OF GROSS NATIONAL PRODUCT IN 1967 (in 1957 prices)

Hours Per Week	With labor force of 79.3 million and increase in output per manhour of		
	2%	3%	4%
	(billions of dollars)		
35	\$520.3	\$573.6	\$627.0
37.5	557.4	614.6	671.8
40	594.6	655.6	716.6
	With labor force of 82.5 million		
35	543.0	598.7	654.3
37.5	581.8	641.5	701.1
40	620.6	684.2	747.8

Although there is some justification for all assumptions made here, one can obtain almost any estimate desired, depending on the combination used



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way tracks, and is open to reciprocal switching. It is practically level, has good drainage, and is zoned for heavy industry. All utilities are available.

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product becomes \$747.8 billion, a rise of about 70 per cent.

Between these extremes, one can obtain almost any estimate that one desires depending upon the combination of assumptions adopted.

The table (page 104) shows dramatically why it is important to check carefully the nature of the assumptions and the possibility of a built-in bias of the forecaster. Certainly, a possible range of increase from 18.3 per cent to 70 per cent leaves much to be desired in the usefulness of such forecasts as a tool in business planning.

Moreover, some important additional qualifications must be kept in mind in using these forecasts.

First, these estimates are in 1957 dollars. Unfortunately, with the inflationary bias manifested in wage inflation and fiscal inflation, such an assumption is not realistic. Thus the actual gross national product in 1967 can and will vary significantly from the projected figure.

Second, we have no way of knowing whether 1967 will be a year of recession, recovery, or boom. The stage of the business cycle influences the level of gross national product in any specific year. Thus, if 1967 should be a period of boom, the actual level attained would be higher than that projected.

Third, these projections make no allowance for interruptions in our economic growth which might attend a war, big or small.

Fourth, these estimates also assume that we will continue to have a free enterprise economy which has made such a major contribution to economic progress in this country.

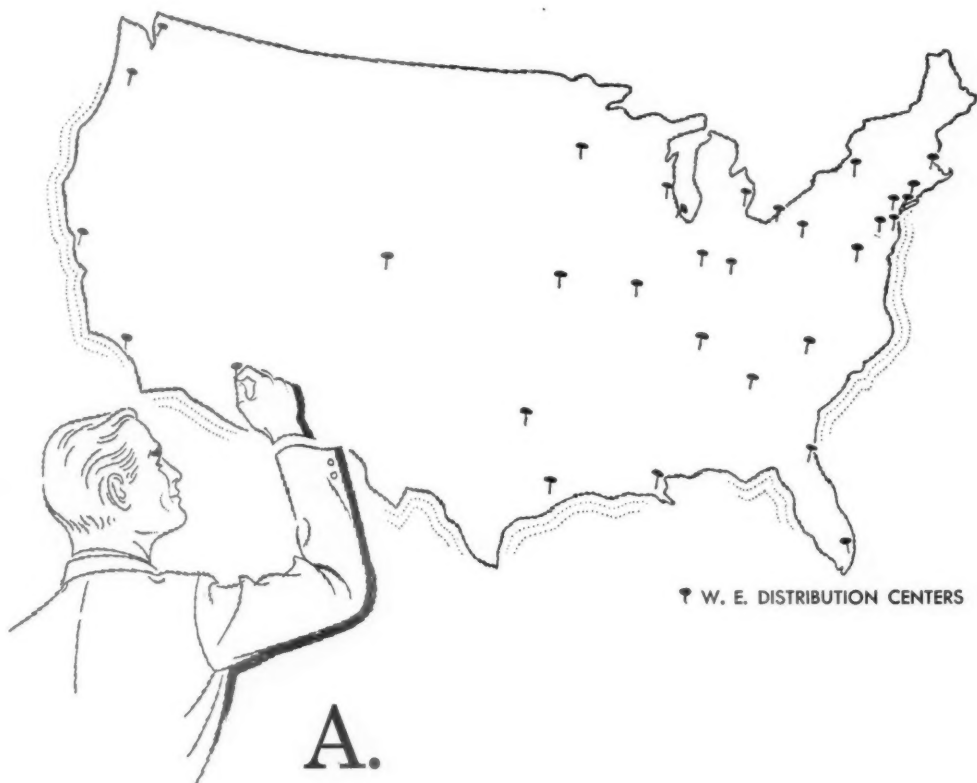
Fifth, about all that we can say after we finish making projections of this type is that a decade from now the general level of economic activity will be significantly higher than today. We cannot pinpoint the precise magnitude of that gain.

Fortunately, such precision is not essential to business planning. It is more important to know the general direction in which we are going and the general magnitude of changes which may be anticipated. If we have a pretty good idea as to direction, we can then adjust our plans from year to year to approximate more closely the precise levels attained.—JULES BACKMAN

New York University

Q.

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OUR TIRED LIBERALS

THE MOST ABUSED WORD in political use today is "liberal."

Originally it identified men who brought new and refreshing thinking to the art of government. These men dared to challenge the idea that those to whom birth or votes had given authority were necessarily all-wise and therefore deserved to be all-powerful. They fought to win for the individual the privilege of proving his own capacity to meet the buffetings of life.

Now the word "liberal" has been perverted to cover those of a completely opposite philosophy. Today we are asked to believe that the "liberal" government is that which most persistently undertakes to meet the people's needs. What the people need is a matter that the new "liberals" have felt free to decide among themselves. The right of individual achievement is not included.

Those who push this philosophy today find themselves in an awkward straddle. To fulfill their dream of security for everybody would require money that the federal Treasury doesn't have and has little chance of getting. To give their goals a semblance of soundness, the "liberals" must first prove that temporary insolvency is a governmental virtue, because it will lead to a glorious new day.

They are trying frantically to do this by insisting that any effort to hold the government's debt in line, to counteract inflation, to reduce the size of monumental expenditures is "fiscal irresponsibility."

The President's budget which attempts to do these things is, they tell us, a "tired budget," the product of old-fashioned thinking which cannot recognize future tax potentials and new concepts of federal service and achievement.

This argument compels attention.

Certainly we cannot afford tired thinking.

Let us listen to the new concepts and examine the financial legerdemain that makes them possible to attain without bankruptcy.

At this point, the liberal promises turn to ashes. We can pay for their schemes, they tell us, because the country is entering on such a period of expansion that tax revenues soon will be sufficient to cover any sort of government extravagance.

This rosy prediction overlooks the truth that both expansion and taxes come from profits and, in the liberal philosophy, profits are wicked. Congressional committees are already hectoring or preparing to hector every major industry. A half dozen bills introduced or proposed would complicate or cripple the procedures by which business and industry expand operations, open job opportunities and introduce better products more cheaply.

If expansion actually does bring the increased revenues for which the "liberals" hope, it will come in spite of them rather than because they planned it that way.

But with expansion or without it we still have no room for tired thinking. We need new ideas, new concepts, new vision in government.

What do the "liberals" bring of these?

The list is tragically disappointing: federal intervention in schools; subsidies for depressed areas; minimum wage legislation; a housing program; veterans' programs; a farm subsidy program—all tired old ideas.

Some have been tried with doubtful success. Others the American people, through their Congress, have rejected in the past as unsound and undesirable.

Compared to this reiteration of political clichés the President's proposal for a balanced budget has the brilliance of sheer originality.

The tired thinking of the pseudoliberals offers little temptation to upset it.



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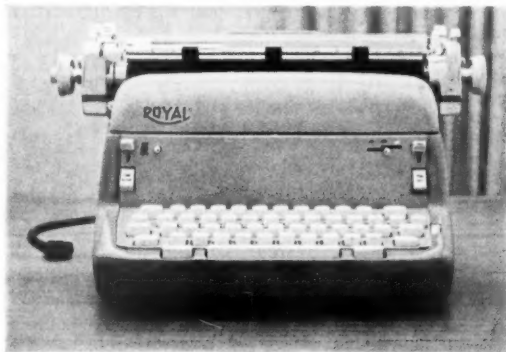
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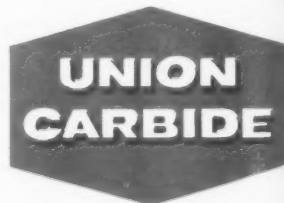
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